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JEI REPORT

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INTERNATIONAL EXCHANGE MARKETS

SUMMARY

Over a decade ago the Bretton Woods System of fixed exchange rates crumbled, resulting in a new system of floating exchange rates that emerged in the spring of 1973. Despite the unrealistic euphoria of economists as floating began, and the gloom-and-doom attitude of some businessmen and governments, the system continues to work adequately, but not perfectly. The yen-dollar exchange rate, however, always becomes an issue when economic tensions build up between Japan and the United States, with accusations that the Japanese are deliberately holding down the value of the yen in order to promote exports.

In two earlier JEI publications (Council Report No. 49, October 25, 1978 and Council Report No. 7, March 23, 1979), we dealt with the theoretical issues behind exchange rates and argued that floating rates were operating well, even if not as well as originally envisioned by economists. Although that view was not universally held in 1978, few people today seem to challenge the floating rate system per se. Since that writing, though, Tokyo's role as an international monetary center has changed significantly. This JEI Report will analyze these changes and discuss current exchange-rate policy in Japan.

Tokyo's Foreign-Exchange Controls

Beginning in the late 1960s, the Japanese government began removing restrictions on currency exchange and international capital flows with the result that the pace accelerated considerably in the next ten years. The new Foreign Exchange Control Law that went into effect in December 1980 ratified many of the changes that had already taken place, enabling the government to continue to work toward the removal of controls. The principal changes of the past five years are summarized below:

- Bond purchases by nonresidents were liberalized in 1979.
- Rates on nonresident yen deposits were liberalized in 1980. Reserve requirements on nonresident yen deposits were also lowered.
- The limit on Euroyen deposits that could be transferred from overseas branches of Japanese banks and held in Japan was increased in 1979.

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- Nonresidents were allowed to invest in the gensaki market (a short-term market involving sale and repurchase of long-term government bonds) in 1979.
- Certificates of Deposit were created in 1979, primarily to aid foreign banks in acquiring yen funds.
- Investment by nonresidents in Japanese corporate equities was further liberalized in 1980, leaving only 11 companies where the total amount of foreign ownership was to be limited.

These and other changes have added up to a considerable increase in the freedom of international capital flows and in the attractions of Japan as a market for investment. The authorities have retained some controls, however, which may be tightened or relaxed depending on government policy. Among the major controls still in place are the following:

- The Ministry of Finance (MOF) exercises administrative guidance over overseas loans in yen or foreign currency by Japanese banks, ostensibly to control exposure to default risk. Actually, the MOF can use this authority to control capital flows.
- There are limits on the total amount of yen-denominated bonds per quarter that can be issued in Japan by foreign entities ("samurai bonds"), as well as on the types of eligible issuing organizations.
- The MOF uses administrative guidance to limit purchases of foreign securities by Japanese insurance companies.
- The amount of foreign currency deposits each foreign and Japanese bank can convert into yen is controlled.
- Administrative guidance is used to control the volume of new Eurobond issues by Japanese companies.
- The government placed an emergency prohibition on Japanese purchases of foreign zero-coupon bonds in 1982. The motivation for buying the bonds, however, has now largely evaporated.

The list of residual controls, plus other more minor ones, sounds impressive, but as liberalization has created a large international financial market, the ability of the government to influence the size of capital flows has diminished.

The Emergence of Tokyo as a Financial Center

By almost any measure, there is no comparison between Tokyo's markets today and in the early 1970s. The decade has seen a tremendous rise in the volume of international transactions. Looking first at spot transactions on the Tokyo foreign-exchange market, the change is quite striking. The data in Table 1 show the daily volume of transactions since the early 1970s. From an average daily business of $73 million, transactions in 1982 have averaged $1.39 billion per day — a 31-percent annual growth in transactions. This spurt actually began in the second half of the 1970s; annual growth from 1976 to 1982 was 48 percent. Some of the increase in currency transactions is related to merchandise trade, but the growth of trade has been far lower than the steep rise in currency transactions. From 1971 to 1981, for example, Japanese exports grew at 15 percent, only half the rate of growth recorded by currency volumes.

Even these data do not capture the full increase in activity, as the spot market figures are for interbank transactions. What are called third-party transactions, between a bank and its customers or between a domestic bank and overseas banks, do not enter into the Tokyo interbank data. The third-party market is actually twice as large as the interbank market, and has grown rapidly at a 46-percent rate from 1977 through 1981.[1]

Tables 2, 3 and 4 provide further evidence of Japan's increasing integration into world financial markets and underscore the importance of capital movements in currency supply and demand. Table 2 presents data on the size of nonresident yen deposits at Japanese banks plus all foreign currency deposits at Japanese banks. Although these data do not provide a breakdown, about 16 percent of total deposits at the present time is in the form of nonresident yen deposits and 84 percent is in foreign currency deposits. These categories together expanded at a 24-percent annual rate for the decade, with a dramatic rise in 1980 when the new Foreign Exchange Control Law went into effect and reserve requirements and interest-rate restrictions were eased on nonresident yen deposits.

Turning to capital flows, Table 3 provides data on the annual change in Japanese long-term financial assets reported in the balance-of-payments statistics. These numbers represent the net increase in Japanese ownership of foreign assets (capital outflow). Annual growth of this statistic averaged 26 percent over the 1971-1981 period. Certain forms of capital outflow have grown rather dramatically; ownership of foreign securities began mushrooming in 1978 to a net increase in 1981 of $8.7 billion, compared to a miniscule $0.1 billion as recently as 1976. Loans and direct investment grew at rate roughly similar to total long-term capital outflow.

Portraying the reverse side of the picture, Table 4 gives data on the net change in Japan's international long-term capital liabilities. The annual change in liabilities grew at an average 30-percent rate, comparing 1981 to 1971, but the pace of change was very uneven and did not really expand significantly until 1979. Whereas some components, including loans, trade credit, direct investment and Japanese bond issues abroad have not grown at a consistent pace, net foreign purchases of Japanese securities have exploded. As with other forms of capital flow, the most dramatic changes have taken place since 1978, with the net increase growing at a 109-percent rate over the 1978-1981 period. Behind the net increase in foreign securities holdings lies a much larger volume of buying and selling activity, as detailed in Table 4. Purchases of Japanese securities, for example, were 36 times larger in 1981 than in 1971.

All of these indicators of currency and capital flow movements confirm that Tokyo has evolved into a much more important international financial center than it was a decade earlier, with the most rapid shifts coming at the end of the 1970s. The remaining controls and the continued paucity of financial instruments relative to some other countries suggest that Japan's financial system may be still less open internationally, but it is clearly moving rapidly beyond the tightly controlled conditions under which it operated a few years ago.

The Shifting Value of the Yen

Since floating began in 1973, the yen has fluctuated as much or more than other currencies. The size of these swings has been a surprise to economists. Chart 1 provides a graphic view of the wide range in the yen's value since the beginning of 1978. After reaching a record peak of ¥176=$1 in October 1978, the yen declined steadily to ¥250 by late 1979. In the spring of 1980, it began a sustained recovery, approaching ¥200 by the end of the year. In 1981, though, it once again weakened steadily, interrupted only by a short burst of strength from August to early December, and since then has been falling. At this writing, the yen is lower than it has been since 1977. Behind these wide shifts have been dramatic movements in Japan's current account and in Japanese and U.S. interest rates. Economists have used a wide variety of different models to explain exchange-rate movements with varying degrees of success. While it is not the purpose of this report to review detailed exchange-rate models and their estimation, two brief comments are appropriate here.

First, confusion has arisen over the role of current-account surpluses and deficits in affecting exchange rates. The current balance represents the net demand for currency resulting from merchandise and services trade activity. If the balance is positive, it implies these trade transactions have resulted in foreign demand for the country's currency to pay for imports that is greater than the trade-generated supply of the currency (payments abroad for the country's imports from the rest of the world). This net excess demand for the currency should, all other factors being constant, push the value of the currency up. The reverse holds for a current-account deficit.

For some periods the current account has been a good indicator of the movement of the yen: the appreciation of 1978 was fueled by large surpluses; the depreciation of 1979 by oil-price-generated deficits; and the appreciation of 1980 by the narrowing of current-account deficits and the expectation of a strong movement back to surplus. That relationship was broken in 1982, however, as the yen sank while surpluses continued. Why? As shown above, transactions related to capital movements have become increasingly important in the total supply and demand for currency. Hence the trade-related net currency demand can be offset (or reinforced) by the capital movement-related net currency demand. Widening interest-rate differentials between Japan and the United States in 1981 and 1982 led to large capital outflows which more than offset what otherwise would have been an upward pressure on the yen from the current-account surpluses.

Second, government officials, upset over the bilateral trade-balance implications of the low value of the yen, have used an implicit purchasing power parity (PPP) argument to explain the situation. The PPP doctrine claims to predict where the exchange rate should be on the basis of relative inflation rates in Japan and the United States. But this argument, too, ignores the very real and large role of capital flows in affecting exchange rates. As outlined earlier (see JEI Report No. 7A, February 19, 1982), if Japan is to be a net exporter of capital to the rest of the world, then it must run a current-account surplus to finance that outflow. Therefore, a value of the yen yielding a surplus may represent an equilibrium position for Japan, although this is not encouraging news for trade officials. In any case, there are very valid economic reasons for the yen's depreciation, in contrast to recurring arguments that the Japanese government is deliberately holding the yen down.

Exchange Rate Manipulation

With the establishment of floating currencies, governments have attempted in varying degrees to affect the open-market fluctuation. In fact, in the mid-1970s these activities were presumed to be so extensive that the term "dirty" floating was used. The Japanese have been accused by Americans of manipulating the yen in such a way as to keep its value low to enhance the price competitiveness of Japanese exports. When the yen was first revalued in 1971 and allowed to float in 1973, there is no doubt that Japanese government officials were distraught; a stable, fixed exchange rate was considered to be vitally important in Japan. Even as late as 1978, the Prime Minister said officially that he preferred fixed exchange rates. Now both the attitude of the

Japanese government and its ability to impose its attitudes on exchange-market developments are very limited. Governments can attempt to modify exchange rates in only two ways: through direct intervention or by affecting capital movements (by means of interest rates or capital controls).

Intervention — The simplest method of manipulating exchange markets is by direct intervention — buying or selling from official foreign currency reserves to move the exchange rate in the desired direction. Japan has been accused of buying dollars to keep the value of the yen below what it otherwise would be in order to promote the competitiveness of Japanese exports. While there were periods when the Japanese government intervened to slow the rise of the yen, the success of this policy remains inconclusive.

First, the facts do not support the argument that the Bank of Japan has consistently bought dollars to depress the value of the yen. Since 1979, virtually all of the intervention has taken the form of dollar sales to push the yen up or at least try to slow its fall. The only exception was the period in 1980 when the yen climbed strongly toward ¥200=$1. The shrinkage in official foreign-exchange reserves from $28.8 billion in November 1981 to $24.4 billion by the end of August 1982 bears out the yen-support intervention of the past year.

Second, the magnitude of the swings in the value of the yen against the dollar during the late 1970s and early 1980s is roughly comparable to the movement of other currencies. Had intervention been successful, these movements would have been dampened. Even theoretical economic models, in fact, suggest that intervention may not work. A recent study of different theoretical models of exchange-rate determination, and empirical tests using them, found very little evidence of effective intervention. While the authors note that the lack of positive results may be due to inadequate data or modeling, the results nevertheless cast some doubt on the importance of direct market intervention.

A somewhat more sophisticated argument claims that while Japan failed to prevent yen/dollar changes, its patterns of intervention held the yen temporarily at certain levels and thereby caused swift, steep changes when intervention halted. Observation of the exchange market does not support this hypothesis. Those intervals when the yen tended to hold steady on the exchange market did not coincide with intervention, but with periods absent of intervention. When the yen's value is changing quickly, the Bank of Japan intervenes if the movement is in a direction that it deems inappropriate, but rarely has such activity halted or steadied the market trend.

Since intervention is often accompanied by considerably higher volumes traded on the Tokyo exchange, it is entirely possible that the activity (which, unlike the Federal Reserve Board's careful secrecy, is largely known to market participants) succeeds only in bringing in more sellers who want to dump their currency holdings before prices drop any further. Since the beginning of 1980, there have been 26 months when the Bank of Japan intervened in the market; in 21 of these months, the average daily volume was higher on days with intervention. Of the remaining number, very minor intervention was recorded in four of the five cases. If in fact the Bank's interference encourages sellers who would otherwise have kept their holdings, intervention is likely to be counterproductive.

A final point suggests the limited effects of direct intervention. As noted above, the volume of transactions on the Tokyo foreign-exchange market has expanded vigorously. However, the volume of Bank of Japan intervention has not increased. When the Bank does enter the market, the amount is usually in the $30- to $50-million range, and is only rarely as high as $200 to $300 million. These amounts are no higher than what the Bank was spending several years ago when market volumes were considerably smaller.

The implication of these arguments that intervention does not seem to have much impact on the level, or even the direction of change in the value of the yen is consistent with the Reagan administration's adamant refusal to intervene in exchange markets out of the conviction that they work efficiently. However, work being done in economic theory suggests that exchange rates can overshoot equilibrium values. As in the "dollar rescue" program of November 1, 1978, internationally coordinated intervention may occasionally have the desired effect.

A more indirect way to influence the exchange market is to place a variety of controls on capital movements, using them to offset or reinforce the relative currency demands related to merchandise and services trade. Some observers believe that Japan is able to successfully manipulate the exchange rate in this way. Such a view was recently expressed in Washington by a member of the European Parliament:

> It is clear that we are also dealing with a sophisticated system for the control of capital movements in and out of Japan, and that this system can have no other purpose but to determine the level of the yen in international trade. It works brilliantly — as indeed similar practices have worked brilliantly in Switzerland and (in the past) in West Germany. [emphasis added][2]

That leaves one major question unanswered: if the system worked so well, why have the yen-dollar fluctuations been so large? The fact is that the remaining capital controls simply are not extensive enough to counteract market-determined flows based on relative interest rates and other economic factors.

The inability or indifference on the part of the Bank of Japan to manipulate exchange rates is illustrated by research studies by the International Monetary Fund. Using spot and forward yen markets in Japan and London (where Japanese intervention or other attempts to affect exchange do not apply), economists Otani and Tiwara concluded that there is some evidence that exchange rates were manipulated prior to 1979, but that since then the evidence generally does not support such an hypothesis. Their research was based on the theoretical relationship between the spot and forward rates and between domestic and foreign interest rates.[3] Existing capital controls have been used (to little avail) to stem capital outflow. Administrative guidance on overseas bank loans, guidance on insurance company securities purchases and the prohibition on zero-coupon bond purchases were intended to serve this purpose.

Japan's inability to stem capital outflow and thus push up the yen's value is in fact a demonstration of the weakness of remaining controls and not a desire to reduce the value of the yen. C. Fred Bergsten, in fact, has suggested that the solution is for Japan to use more vigorous controls — declaring a temporary moratorium on all capital outflows.[4] His prescription would work, but it runs counter to the general international liberalization of capital markets. Nor would it solve all of Japan's problems since, as suggested above, Japan might have to remain a capital exporter for some time. Even if Bergsten's suggestion is radical, however, his point is well taken. Under current economic conditions, the yen would fall, not rise, if controls were eliminated, and Bergsten's prescription for more controls is the only feasible one until economic conditions change.

Conclusion

The Ministry of Finance has proceeded very deliberately during the past decade to dismantle international capital controls. It has done so reluctantly, motivated more by the inevitability of Japan's financial integration with the rest of the world than by any firm sense of economic advantage. One of the reasons for the reluctance has been the concern that the government would lose its tight control over domestic monetary policy, and the size of capital movements suggests that liberalization has in fact significantly eroded that control.

As the above analysis demonstrates, the persistent feeling that Japan is deliberately holding the yen down to benefit its exporters exaggerates the effectiveness of monetary policy in the mid-1970s. Moreover, since 1979 the Japanese government has generally wished the yen were higher, not lower. If the Japanese are at fault, it is because of the low level of interest rates in Japan relative to the United States. But these interest-rate levels in Japan are neither for the purpose of promoting exports nor at all out of line considering the level of inflation and the slow economic growth in Japan. The current low value of the yen is an unfortunate result of policy decisions in both Tokyo and Washington taken in both cases for domestic reasons rather than international.

Footnotes

[1] Far Eastern Economic Review, September 24, 1982, p. 67.

[2] W.J. Hopper, M.E.P., "How Do We Cope with Japan's Trade Surpluses" (speech given to the Ripon Society and Bow Group, Washington, D.C., April 24, 1982).

[3] Ichiro Otani and Siddharth Tiwara, "Capital Controls and Interest Rate Parity: The Japanese Experience, 1979-81," IMF Staff Papers, December 1981.

[4] C. Fred Bergsten, "What to Do About the U.S.-Japan Economic Conflict," Foreign Affairs, Summer 1982, p. 1065.

For further information, contact Edward Lincoln.

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Table 1

Spot Transactions on the Tokyo Foreign Exchange Market

	Average Daily Market
1971-1975	$ 73 million
1976	131 million
1977	236 million
1978	445 million
1979	656 million
1980	804 million
1981	1,036 million
1982 (Jan.-Sept.)	1,388 million

Source: 1971-1981 from Ichiro Otani, "U.S.-Japan Relations on Capital Markets in the 1980's" in *Annual Report, Program on U.S.-Japan Relations*; 1982 from JEI data files.

Table 2

International Accounts in Japanese Banks

	Nonresident Yen Deposits Plus Foreign Currency Deposits
1971	¥1.0 trillion
1972	1.9 trillion
1973	2.1 trillion
1974	2.3 trillion
1975	2.6 trillion
1976	2.8 trillion
1977	3.5 trillion
1978	4.8 trillion
1979	4.6 trillion
1980	7.8 trillion
1981	9.1 trillion

Source: Bank of Japan, *Economic Statistics Annual*

Table 3

The Changing Size of Capital Flows: Growth Long-Term Assets

(in billions of dollars)

Calendar Year	Total	Loans*	Securities	Direct Investment
1971	$ 2.2	$0.6	$0.2	$0.4
1972	5.0	1.7	1.1	0.7
1973	8.5	3.0	1.8	1.9
1974	4.1	1.1	0.1	2.0
1975	3.4	1.3	0.1	1.8
1976	4.6	1.5	0.1	2.0
1977	5.2	0.5	1.7	1.6
1978	14.9	6.3	5.3	2.4
1979	16.3	8.1	5.8	2.9
1980	10.8	2.5	3.7	2.4
1981	22.8	5.1	8.7	4.9

*Non-trade credit loans.

Source: Ministry of Finance, Balance of Payments Monthly

Table 4

The Changing Size of Capital Flows: Growth of Long-Term Liabilities

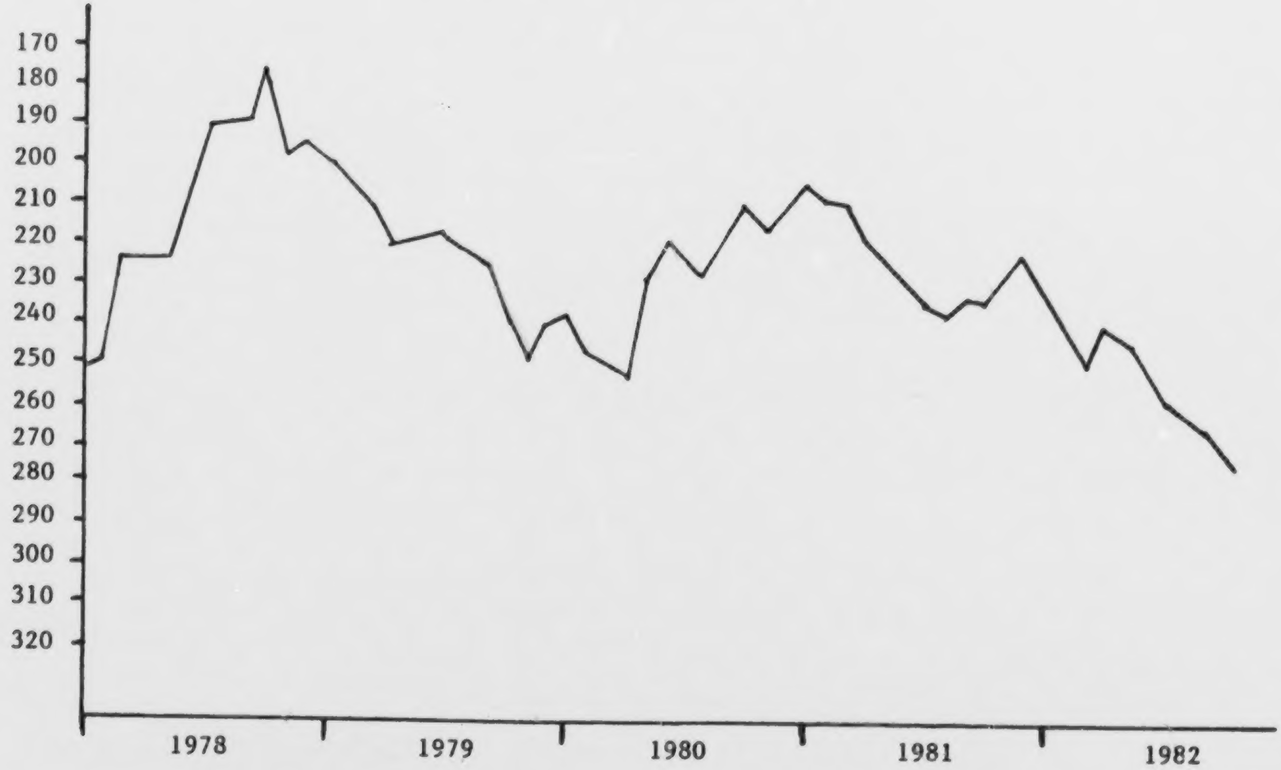
(in billions of dollars)

Year	Total	Loans	Direct Investment	Japanese Bonds Issued Abroad	Foreign Ownership of Japanese Securities		
					Net Change	Purchases	Sales
1971	$ 1.1	$0.0	$0.2	$0.0	$0.9	$2.2	$1.3
1972	0.5	-0.2	0.2	-0.1	0.7	3.3	2.6
1973	1.1	-0.3	-0.0	-0.2	-0.6	2.0	2.6
1974	0.2	-0.2	0.2	0.0	-0.9	1.1	1.9
1975	3.1	0.2	0.2	1.2	1.5	3.8	2.3
1976	3.6	0.3	0.1	1.5	1.6	5.9	4.4
1977	2.1	-0.3	0.0	1.1	1.3	7.5	6.2
1978	2.5	-0.0	0.0	0.8	1.7	15.6	13.9
1979	3.7	-0.2	0.2	2.2	2.4	26.9	24.5
1980	13.2	-0.2	0.3	1.2	11.9	39.0	27.1
1981	16.4	-0.2	0.2	1.4	15.1	78.3	63.2

Source: Ministry of Finance, Balance of Payments Monthly

Chart 1

The Yen-Dollar Exchange Rate



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Cabinet Announces Economic Stimulus Package

With opinions on the government's projected expansionary fiscal policies deeply divided, the Suzuki Cabinet announced the adoption of a $7.7 billion economic recovery package. The announcement covered measures to boost public works spending, assist small- and medium-scale businesses, secure stable employment and stimulate investment in the housing industry. Also targeted for assistance are those industries classified as severely depressed, including aluminum and lumber, together with an increase in Export-Import Bank funding to promote industrial plant exports. Taken together, the measures are expected to spur the growth rate from 2.7 percent to 3.4 percent, compared to an earlier government forecast of 5.2 percent, Economic Planning Agency officials said. But Finance Ministry economists, whose reading of the economic indicators is more positive, disagreed with the overall thrust of the package and argued against key items on the grounds that budget deficits were already unacceptably high.

Additional spending on public works is expected to be concentrated on disaster relief efforts by both national and local government bodies. These reconstruction projects are usually budgeted to spend some 30 percent of total funds in the first year, but will instead be authorized to accelerate up to 60 percent of the total budget in first-year allocations.

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1980	1981	January-August 1981	January-August 1982	June 1982	July 1982	August 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$11,007	$10,887*	$ 2,437*	$ 2,329*	$ 984*
Exports (f.o.b.)	126,736	149,522	97,379	92,533*	11,669*	11,921*	10,405*
Imports (f.o.b.)	124,611	129,555	86,372	81,646*	9,232*	9,592*	9,421*
Current Account Balance	-10,746	4,770	796	2,824*	1,738*	1,411*	-30*
Long-Term Capital (net)	2,394	-6,449	-4,330	-14,611*	-2,019*	-1,959*	-2,286*
Overall Balance	-8,396	-2,144	-2,325	-7,567	-1,468	-499	-397
International Reserves (end of period)	25,232	28,403	27,660	24,416	25,487	25,669	24,416
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	3,045	3,169*	1,664	1,279	-33*
Exports (f.o.b.)	129,807	152,030	99,225	93,465*	11,735	11,958	10,403*
Cars	16,115	18,445	12,464	12,153*	1,507	1,559*	1,270*
Steel	15,454	16,669	10,603	11,053*	1,538	1,361*	1,219*
Imports (c.i.f.)	140,528	143,290	96,180	90,297*	10,071	10,679	10,437
Crude Oil	52,763	53,343	36,896	31,302*	2,748	3,385*	3,560*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	7,445	7,905*	1,055	1,115*	704*
Exports (f.o.b.)	31,367	38,609	24,345	24,508*	3,142	3,230*	2,705*
Imports (c.i.f.)	24,408	25,297	16,900	16,603*	2,087	2,115*	2,001*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥254.00	¥257.50	¥261.70
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-10,394	-12,408	-1,289	-1,112	-2,082
Exports (f.a.s.)	20,790	21,823	14,281	13,976	1,828	1,777	1,732
Industrial Supplies	9,501	8,983	5,699	6,141	756	674	733
Food and Feed	5,393	5,896	4,022	3,311	429	429	500
Capital Goods	4,340	4,767	3,177	2,977	356	489	314
Consumer Goods	1,154	1,318	885	919	128	117	114
Imports (f.a.s.)	30,701	37,612	24,675	26,384	3,118	2,888	3,814
Automotive Products	11,436	12,950	8,959	9,014	1,019	1,087	1,266
Industrial Supplies	5,926	7,179	4,607	5,105	616	529	689
Consumer Goods	6,198	8,340	5,318	5,305	622	526	819
Capital Goods	6,555	8,589	5,454	6,459	803	701	983

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-July 1981	January-July 1982	May 1982	June 1982	July 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	7.9%	9.8%	9.4%	8.8%	9.3%
Industrial Production	7.0%	3.1%	1.4%	2.3%	1.3%	1.3%	1.1%
Manufacturing Operating Rate	0.7%	-4.6%	-6.7%	-1.8%	-1.3%	-2.9%	-3.3%
Number of Bankruptcies	11.6%	-1.5%	2.2%	-3.1%	-5.5%	-1.2%	-3.4%
Residential Construction Starts	-15.0%	-9.2%	-11.3%	-6.2%*	-22.0%	-1.9%	7.8%*
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.62	0.58	0.58	0.58
Nominal Wages	6.3%	5.3%	5.4%	4.7%	4.5%	3.5%	4.7%
Labor Productivity	9.1%	3.5%	2.4%†	2.6%†	1.5%	n.a.	n.a.
Wholesale Prices	17.8%	1.7%	2.0%	2.1%	1.3%	1.1%	1.3%
Consumer Prices	8.0%	4.9%	5.6%	2.6%	2.3%	2.2%	1.7%
Yen-Based Export Prices	9.3%	1.9%	-0.5%	5.1%	2.8%	3.2%	1.8%
Yen-Based Import Prices	43.0%	3.0%	0.4%	7.4%	4.0%	5.2%	5.7%

*Preliminary
†Through May of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 17, 1982.

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JAPAN'S CONSUMER CREDIT MARKET

SUMMARY

This JEI Report investigates the growth, current status and potential development of the consumer credit industry in Japan. Because of the longer maturities and differing industry structure, housing mortgages are excluded from this report.

Japan's high rate of individual saving is the result of many factors, one of which is the underdeveloped state of consumer credit. In 1980, for example, the ratio of consumer credit outstanding (excluding mortgages) to personal disposable income was only 7.0 percent, compared with 21.7 percent in the United States -- sufficiently small that the market for consumer credit can be expected to grow substantially. Sales of consumer durables, including electric appliances and automobiles, which spurted during the high-growth period, provided the impetus for the development of consumer credit companies, supplementing the minor lenders who traditionally had catered almost exclusively to lower-income applicants. These small-scale businesses which are dependent on high-interest financial sources generally charge very high interest rates. Nevertheless, these outlets have grown along with bank card credit and other more sophisticated commercial institutions. At present, consumer credit companies are gradually cultivating demand from middle- and upper-income wage earners whose potential for expenditures is expected to have a large impact on the consumer credit market.

Historical Background

Until 1960, demand for consumer credit was met by installment sales, sales finance companies (Shinpan) and manufacturer-affiliated credit companies. Social resistance to the idea of consumer credit was strong, however, and a variety of legal restraints were introduced which interfered with the orderly extension of credit. The Shinpan finance companies, for instance, were prevented from issuing credit cards for use in nationwide department stores in order to protect regional retail stores. Despite these constraints, as sales of consumer durables, such as home electric appliances and automobiles boomed in the 1960s, retailers and manufacturer-affiliated credit companies moved quickly to

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expand installment sales. Banks instituted loans for consumer appliances and autos. The Japan Diner's Club and the Maruito consumer finance company were established, and in 1961 the Japan Credit Bureau shopping card was introduced.

By this time, households were able to purchase a wide range of products on credit to meet the needs of an increasingly affluent society. With some contraction in demand from the corporate sector in the 1965 recession, many other financial institutions entered the consumer finance market, and bank-affiliated card companies were established in the late 1960s. As demand for major consumer durables slowed in the 1970s when the process of diffusion was completed, pure cash loans provided by new consumer finance companies as well as by Shinpan expanded to take a larger share of the rapidly changing credit market. As the outstanding total of borrowings advanced, foreign-capital consumer finance companies entered the Japanese market, bringing with them more competitive rates and larger, more efficient marketing techniques.

Types of Consumer Credit

The increase in consumer credit in 1980 totaled ¥15.6 trillion (approximately $59 billion at current exchange rates) and amounted to 11.4 percent of personal consumption. The outstanding total has increased by an annual average rate of 17.3 percent since the first oil crisis in 1973, although the impact of that downturn has gradually slowed the growth of personal consumption. The structure of Japan's credit market can be seen in Table 1. Suppliers of credit are divided into companies which provide direct cash loans and those which offer other types of financing (sales credit). In 1980, suppliers of credit tied to specific purchases — department store cards, bank cards, retailer- and manufacturer-affiliated credit companies and general consumer credit institutions — accounted for 66.4 percent of the market, and other, general loans for 35.6 percent. Credit sales still have a high share in total consumer credit, but the ratio has been declining from its 70-percent range as the money-lending business has grown.

Installment sales, including retailer- and manufacturer-affiliated credits account for 87 percent of total sales credit. Bank-affiliated credit cards have not been competitive in this area as they do not offer installment payments. The principal trend has been the tremendous increase in the cash loan field since 1975, with the addition of more banks and other lenders boosting this portion of the consumer finance market at more than a 50-percent average annual rate.

Retail Credit — Although outlets specializing in installment sales grew rapidly at first and held more than a 40-percent share of all consumer credit in 1968, the development of the market has altered this concentration. With the oil crisis in 1973 and the resulting slump in the economy, increased competition emerged as large department stores began to offer installment sales and Shinpan and bank-affiliated credit cards began to tap the same market. Archaic credit procedures and high commissions also made it difficult for these traditional installment outlets to compete with other financing agencies entering the field. Gradually, some of these merged into affiliations with large retailers or department stores, or simply evolved into consumer finance operations.

Manufacturer-Affiliated Credit — A wide range of manufacturers of electric appliances and automobiles made credit available in order to sell relatively expensive consumer goods. In order to meet their liquidity needs as demand expanded, these firms then established affiliated credit companies to obtain funds from financial institutions. As a group, manufacturer-affiliated credit companies increased their share of the consumer credit market until 1972 when they reached 22.5 percent; by 1980 that had dropped to 16.7 percent. This trend is expected to continue as demand for their products continues to stagnate and new entrants into the credit network seek a niche in the buying process. The largest of these firms have begun to diversify into other areas, such as factoring or overseas consumer credit.

Shinpan -- These finance companies offer a wide range of consumer credit, available either through credit card purchases or consumer loans. If a user purchases goods with a credit card, Shinpan makes payment to the retailer and bills the consumer on an installment basis. Borrowers also have the option of cash loans, in which case a contract is issued. This mode is designed to expand the range of use of Shinpan credit, which operates under the restriction that holders cannot use their credit cards in nationwide department stores. Installment sales through Shinpan increased their share of the consumer market to 8.1 percent, and contracts sales to 16.1 percent in 1980. The same pattern is seen in Table 1, which shows all installment sales under contract are more popular than installment sales on credit cards. Anticipating new marketing trends, Shinpan companies have begun to diversify their activities into installment factoring, computer on-line systems for credit cards, and direct cash loans.

Credit Cards -- Credit cards are issued by bank-affiliated card companies, Shinpan, retailers and oil companies. Of these, bank-affiliated credit card companies have issued the largest number of cards and have the largest annual turnover. In their eagerness to enter this field, banks have made great efforts to acquire cardholders and increase their loan portfolios in the personal sector. However, since these cards have no installment provision, they have been less well received and consequently less profitable. Many financial institutions are diversifying their activities and aggressively pursuing the more promising cash loan market. Brisk activity has also begun in bank tie-ups with foreign firms, such as VISA International Service Association and Mastercard. These companies have extended franchises to city banks, mutual savings and loans and credit associations, and have offered joint international credit cards. These cards are extremely advantageous to the consumer because of the wide range of potential services they offer.

Banks -- Consumer credit by city banks, local banks, mutual savings and loans and credit associations is available for retail purchases of automobiles, pianos, electric appliances, travel and furniture. Personal secured bank loans have been available since 1971. Unsecured personal loans were first offered by Sanwa Bank in 1978, principally in response to social pressure generated by the high interest rates charged by the small cash loan companies. Additionally, competition within the banking industry impelled the banks to find customers as demand from the corporate sector declined. And a portion of the market was already being developed by the postal savings system. Bank loans are more advantageous to borrowers and carry a lower interest rate. At the same time, since it is essential that they protect their depositors and maintain their asset level, these low-risk loans are confined to middle- and high-income classifications. In 1980, all personal loans amounted to only 9.7 percent of total consumer credit. The more important role in the consumer credit market is the banking industry's provision of funds to Shinpan, credit card companies, retail stores and other consumer credit institutions.

Consumer Finance Companies -- The remaining portion of the consumer finance market is occupied by the numerous cash loan companies, which are still the most common form of financing. (Until 1960, pawnshops were very prominent in this category, but their popularity has declined). These cash loan companies are referred to as sarakin because they are provided mainly to "salaried men." The "sara" is derived from salaried and "kin" implies finance. Such loans are convenient because they are not fixed to specific purchases or stores and no collateral is necessary. These companies are easily established simply by registering with the local government, and are frequently small and under-capitalized. A survey done by the Ministry of Finance shows that 60 percent of these businesses had less than ¥5 million (approximately $9,000) in capital. Compared with banks and larger financial institutions, these firms borrow and lend at high interest rates. Requiring no security and with limited access to credit files, they incur high rates of default. Half of the borrowers use the cash for daily needs and often are unable to repay the loans.

The industry is not strictly regulated and consumer legislation has so far been absent. Under the Capital Subscription Law, an upper ceiling of 109.5 percent annual interest rate may be charged on direct cash loans. Typically, loans from small moneylenders are reported to average between 84 and 102 percent. The emergence of larger and more efficient companies is expected to be instrumental in bringing down this exorbitant interest rate. The very rapid rates of expansion and the high profitability potential have attracted a number of foreign-affiliated companies to the market (see Table 2), although recently, Japan Household Finance Corp. and BA Finance closed their Japanese offices, citing consumer resistance to strict credit investigations.

Current Policy Questions

Protection of Small Retailers -- The Ministry of International Trade and Industry (MITI) and the Ministry of Finance (MOF) have sporadically issued regulations as part of the government policy to protect small- and medium-scale retailers. Since 1959, MITI has restricted installment sales by department stores and prevented the use of Shinpan credit cards in department stores. An MOF regulation dating from 1975 restricts installment sales by bank-affiliated credit card companies for the same reason — i.e. the parent bank's resources are considered so large as to constitute unfair competition. In addition, banking institutions are prevented from offering revolving accounts. Thus although bank-affiliated credit cards were designed to supplement the undeveloped consumer credit business in that sector, legislative restraints have prevented their competing on an equal basis, and while the use of credit cards is rising, it is not as widespread as in the United States.

Interest-Rate Regulation -- Revisions of the interest-rate regulations governing consumer lending are essential. As noted above, the main regulation of cash loan companies rests with local governments. However, two national laws govern lenders; one applicable to banks and the other to the general credit market. This legislation sets the upper interest ceiling on cash loans at 20 percent for banks and 109.5 percent for cash loan companies. This discrepancy has had serious repercussions on the participating firms and corrections of these built-in inequities remains an important matter.

Tax Treatment -- Interest on consumer credit cannot be deducted from income taxes in Japan. The only exception is a limited tax preference for housing loans. A taxpayer whose yearly mortgage payments (interest and principal) exceed ¥300,000 (approximately $1,100) is entitled to deduct only 5 percent of that sum up to ¥30,000 (approximately $110) from taxes for three years; even this deduction is not allowed to individuals whose total income exceeds ¥8 million (approximately $30,000).

Personal Credit Investigation — A major concern for the industry has been the absence of a nationwide credit information system. With the emergence of new loan companies, the need for a readily accessible credit clearinghouse has become a major limitation. As shown in Table 3, there are five personal credit information centers in Japan, but because individual companies maintain their own files and do not divulge their information, these centers do not yet have enough data of the size and quality required by industry participants. Moreover, much of the credit information presently held only lists borrowers in default, rather than credit histories, and does not offer adequate data to the lender.

Potential for Increased Borrowing

Since consumer credit parallels personal consumption expenditures, economic growth can be expected to influence the level of consumption. According to the government's seven-year forecast, the average annual growth in consumer spending from 1979-85 is expected to drop to a nominal rate of 11 percent, from a 14-percent level in 1973-79. This, MITI's council on consumer credit suggests, will shrink the growth of the market for credit to an average annual rate of about 12 percent, as compared with the present 18 percent. The actual behavior of the market, however, refutes this direction. Despite a decline in the growth rate of consumer spending, consumer credit continues to expand. With a low ratio of consumer credit outstanding against personal disposable income, there is ample room for growth. Furthermore, with business activity stabilized and demands for loans from the corporate sector lagging, private financial institutions are more aggressively pursuing the consumer credit market. Because loan demand from middle- and upper-income borrowers has been very low, banking institutions anticipate the need to actively develop the potential of this market, by offering, for example, the convenience of credit cards with an international network of travel and shopping credit as an attractive incentive. Japan's consumer credit industry, now entering a period of innovation and expansion, is expected to continue at a strong pace.

For further information, contact Yoshio Nakamura.

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Table 1

Structure of Consumer Credit (New Credit Extensions)

(in billions of yen)

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Loans													
Post Office Savings Loans	¥ 0	¥ 0	¥ 0	¥ 0	¥ 0	¥ 153	¥ 200	¥ 240	¥ 323	¥ 391	¥ 439	¥ 480	¥ 684
						(3.0%)	(3.5%)	(3.3%)	(3.8%)	(4.0%)	(3.7%)	(3.4%)	(4.4%)
Pawnshop Financing	170	173	177	181	187	192	197	204	210	217	225	217	224
	(9.0%)	(6.9%)	(6.0%)	(5.6%)	(4.6%)	(3.8%)	(3.4%)	(2.8%)	(2.5%)	(2.2%)	(1.9%)	(1.6%)	(1.4%)
Personal Loans Guaranteed by Financial Institutions	174	333	437	454	499	567	452	578	628	651	853	856	894
	(9.2%)	(13.3%)	(14.9%)	(14.0%)	(12.3%)	(11.2%)	(7.9%)	(8.0%)	(7.5%)	(6.6%)	(7.3%)	(6.1%)	(5.7%)
Personal Loans Unguaranteed by Financial Institutions	105	129	155	174	229	389	373	526	622	706	840	902	622
	(5.6%)	(5.2%)	(5.3%)	(5.4%)	(5.7%)	(7.7%)	(6.5%)	(7.2%)	(7.4%)	(7.2%)	(7.1%)	(6.5%)	(4.0%)
Money Lending Business	4	6	8	12	84	143	206	342	534	881	1,312	2,077	2,802
	(0.2%)	(0.2%)	(0.3%)	(0.4%)	(2.1%)	(2.8%)	(3.6%)	(4.7%)	(6.3%)	(8.9%)	(11.2%)	(14.8%)	(18.0%)
Total Loans	453	641	777	820	999	1,444	1,428	1,890	2,317	2,846	3,669	4,525	5,226
	(24.0%)	(25.6%)	(26.5%)	(25.3%)	(24.7%)	(28.4%)	(24.9%)	(26.0%)	(27.5%)	(28.8%)	(31.2%)	(32.4%)	(33.6%)
Sales on Credit													
Bank-Affiliated Credit Cards	47	110	132	165	199	271	349	415	500	600	690	800	1,070
	(2.5%)	(4.4%)	(4.5%)	(5.1%)	(4.9%)	(5.3%)	(6.1%)	(5.7%)	(5.9%)	(6.1%)	(5.9%)	(5.7%)	(6.9%)
Department Store Credit Cards	---	---	---	---	122	156	185	205	222	236	272	313	245
					(3.0%)	(3.0%)	(3.2%)	(2.8%)	(2.6%)	(2.4%)	(2.3%)	(2.2%)	(1.6%)
Installment Sales Through Credit Cards	112	138	151	165	206	277	345	427	535	665	856	1,136	1,255
	(5.9%)	(5.5%)	(5.2%)	(5.1%)	(5.1%)	(5.5%)	(6.0%)	(5.9%)	(6.4%)	(6.7%)	(7.3%)	(8.1%)	(8.1%)
Installment Sales Contracts	---	11	19	33	66	133	230	424	620	915	1,269	1,837	2,508
		(0.4%)	(0.6%)	(1.0%)	(1.6%)	(2.6%)	(4.0%)	(5.8%)	(7.4%)	(9.3%)	(10.8%)	(13.1%)	(16.1%)
Other Retailers Credit	778	890	964	1,015	1,102	1,216	1,453	1,809	1,936	2,140	2,359	2,411	2,657
	(41.3%)	(35.6%)	(32.9%)	(31.3%)	(27.2%)	(24.0%)	(25.3%)	(24.9%)	(23.0%)	(21.7%)	(20.1%)	(17.3%)	(17.1%)
Other Manufacturer-Affiliated Credit	494	711	886	1,046	1,358	1,582	1,755	2,091	2,289	2,470	2,641	2,948	2,599
	(25.2%)	(28.4%)	(30.2%)	(32.2%)	(33.5%)	(31.2%)	(30.5%)	(28.8%)	(27.2%)	(25.0%)	(22.5%)	(21.1%)	(16.7%)
Total Sales on Credit	1,431	1,860	2,152	2,424	3,053	3,633	4,317	5,371	6,102	7,026	8,087	9,445	10,332
	(76.0%)	(74.4%)	(73.5%)	(74.7%)	(75.3%)	(71.6%)	(75.1%)	(74.0%)	(72.5%)	(71.2%)	(68.8%)	(67.6%)	(66.4%)
Total Consumer Credit	1,884	2,501	2,929	3,244	4,052	5,077	5,745	7,261	8,419	9,872	11,756	13,970	15,558
	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)	(100.0%)

Note: Figures in parentheses are percentage distribution.

Source: Japan Installment Association

Table 2

List of Major Foreign Consumer Finance Companies

Consumer Finance Company	Date of Entry to Japan	Parent Company or Shareholder
Avco Financial Services of Japan, Inc.	July 1977	Avco Financial Services Inc.
Japan Hawaii Finance K.K.	April 1978	Hawaii Thrift & Loan Inc.
Japan Security Pacific Finance Co., Ltd.	August 1978	Security Pacific Credit Ltd.
Japan Household Finance Corp.	September 1978	Household Finance Corp.
Citicorp Credit Services, Inc.	April 1979	Citicorp Custom Credit Inc.
Japan Associates Financial Services	May 1979	Associates Corp. of North America
B.A. Finance (Japan) Ltd.	March 1980	Bank of America (Hong Kong)

Source: Ministry of Finance

Table 3

Personal Credit Information Centers in Japan

Credit Information Centers	Leading Members	Individual Data Records Compiled (in thousands)
Credit Information Center of Japan Installment Credit Association	Retailers and Finance Companies	13,500
Japan Credit Information Center	Manufacturer-Affiliated Credit Companies	3,000
Personal Credit Information Center of Bank Association	Financial Institutions and Credit Card Companies	2,000
National Credit Information Corporate Center	Consumer Finance Companies	4,000
Central Communication Bureau	Foreign-Capital Consumer Finance Companies	50

Source: Ministry of International Trade and Industry

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THE JAPANESE TOURISM INDUSTRY

SUMMARY

Normally, debate on U.S.-Japan trade issues has focused on specific manufacturing industries such as automobiles, consumer electronics and computers. Only recently has attention begun to be paid to trade in services, as the increased level of activity in this category has grown steadily more significant. As reported in a previous JEI Report on bilateral services trade (November 13, 1981), the United States continues to record a large surplus in the travel account as growing numbers of Japanese journey to this country either on business or holiday vacations. This paper will examine the scope of Japanese interest in travel to the United States and describe some characteristics of the market for tourism.

Trends in International Travel

Behind the fast-growing tourism trade in Japan lies a strong combination of rising standards of living, more relaxed corporate vacation policies and attractive and affordable group travel tours. Part of the surge stems from a 1978 change in policy regulating foreign-currency purchases. In that year, the Japanese government liberalized the purchase of foreign currency and raised to ¥3 million ($11,000 at current exchange rates) the currency travelers could take out of the country. The number of Japanese tourists has continued to rise from slightly more than 160,000 in the 60s — when it was still considered a luxury — to more than four million in 1981.[1] Table 1 shows Japanese overseas travel by country. To date, the largest groups of travelers are bound for Asian countries; however the United States is the first overseas choice for the largest number of Japanese tourists.

Last year, 83 percent of all overseas travelers were vacation-bound; 14 percent went abroad on business. Most were male — 70 percent, or 2.8 million — but the number of women traveling has mushroomed in the last ten years, and young women in their twenties accounted for more than 40 percent of this number. Among men, the largest group was between 30 and 40 years old. Men and women over 60 are vacationing internationally more frequently, and this group's share of the market showed a more-than 10-percent increase in 1981. The high travel seasons are generally March (graduation), August (summer vacation) and October-November (wedding and honeymoon seasons in Japan). An average trip is about nine days and the most frequent destinations are Taiwan, South Korea, Hong Kong and Hawaii. Last year, 135,000 younger travelers (15-24 years old) went abroad, a 30-percent jump from the previous year. Short-term vacation travel accounted for 96 percent of this group, but about 6,000 were heading abroad for education. Among this age group, the majority participated in various foreign-exchange programs sponsored by the government or organizations such as the Rotary Club. One such exchange offers students from Japan and Australia a "Working Holiday" program with special visas and work permits so that youths 18-25 years old can support themselves while traveling.

Foreign tourists are also visiting Japan in growing numbers — 1.6 million arrived in 1981. By region, the largest group last year came from Asia (770,000 or 49 percent of the total), a 27-percent jump from the previous year (Table 2). Most of them were from Taiwan (which liberalized tourist visas in 1979, causing a dramatic increase in the number of travelers to Japan), and the ASEAN nations (Indonesia, Thailand, Malaysia, Singapore and the Philippines). North America accounted for 26 percent of the total, and Europe 8 percent. In the last 10 years there has been a contraction in the number of tourists from North America and a rise in visitors from Asia, although Americans were still the largest group last year at 350,000, an 11-percent increase from 1980. Taiwan ranked second (a 28-percent jump), followed by South Korea (38-percent higher) and the United Kingdom.

Japanese Tourists to the United States

Of the more-than 1 million Japanese tourists to visit the United States last year[2], most did not come to the U.S. Mainland. Two-thirds stayed in Hawaii and another 225,000 went to Guam/Saipan. There is strong interest in West Coast destinations, particularly Los Angeles and San Francisco, but the East Coast, except for New York, is still a minor destination, and few Japanese visit the Midwest or the South.

Due to language problems and unfamiliarity with the sites, most first-time travelers choose group tours arranged by travel agencies. The Hawaii/Guam/Saipan programs are popular, close and affordable. There has been heavy direct investment in Hawaii by Japanese businesses in hotels, restaurants, shops and other services for Japanese tourists. All group tours are accompanied by Japanese-speaking escorts from Japan or local staff. Many travelers have been on a prior trip to the islands and are returning with their families. Particularly if a tourist's hobby is skuba diving or surfing, the warm-weather facilities are likely to be an important consideration.

Group tour programs are offered to suit a wide range of travelers. For example, Japan Airline's "JALPAK" tours feature 28 trips to Hawaii, 47 to the West Coast (mostly Los Angeles and San Francisco), seven to the East Coast and three excursions that cover a number of cities in the United States and Canada. Other major travel agencies such as the Japan Travel Bureau (JTB) and Kintetsu International Express also offer similar programs, strategically marketed to meet the needs of honeymooners, families, students and retired groups. Journeys are designed to concentrate on sightseeing or leisure activities, such as swimming, diving and sailing, but there are also thematic trips for travel parties interested in, for example, history, which include New York, Boston, Washington, Newport News, Williamsburg and Philadelphia. Popular additions to the East Coast tours are the Bahamas and Mexico. On the West Coast, most tours include Disneyland and Las Vegas.

The Japanese Tour Industry in the United States

Almost all Japanese tours are handled by travel agencies in Japan and their branch offices in the United States. These groups tend to give Americans the impression that they use only Japanese airlines, stay at Japanese-owned hotels, shop at Japanese-run shops and eat at Japanese restaurants. As a result, there have been complaints that

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Japanese travel agencies monopolize this trade. One West Coast firm, Dolphin Tours, charged a Japanese firm, the Pacifico-Creative Co., of unfair business practices in a suit filed with the California Public Utilities Commission. The PUC found the case out of its jurisdiction, but the case is awaiting the California Supreme Court's decision. At present, there are five similar charges filed by American tour companies against Japanese-managed agencies in California. An investigation of the trade practices of travel agencies by Hawaii's International Services Agency, on the other hand, concluded recently that charges of foreign companies monopolizing the tourist business are unwarranted.[3] In one case study concerning the Japan Travel Bureau, which handles 20 percent of all Japanese tourists to Hawaii, the study found high usage of Pan American Airlines, Northwest Airlines and Korean Airlines. Of nine hotels used by the JTB, four are American-owned and managed, five are owned by Japanese but managed by Americans and only one is totally Japanese owned and managed. The four bus companies used by the firm are locally owned. As for the pattern of hotel use, the survey found no concentration of Japanese tourists at Japanese-owned facilities.

Even Japanese-owned tour offices and travel facilities in Hawaii generate considerable local employment, income and reinvested profits. The latest data available (for 1976) show that tourism was the largest single sector for Japanese investment in Hawaii, with 235 firms recording a total of $252 million in gross income. More than 9,000 persons were employed by these concerns, whose annual payrolls accounted for $77 million. More than 20 percent of this sum ($249 million) was attributable to investments in hotels, which currently employ a workforce of about 4,600 — almost all residents of Hawaii.

Efforts by American travel agents to handle more Japanese tourists are hampered by the fact that they do not have branch offices in Japan. To compete with Japanese agencies, U.S. firms would have to be willing to make a substantial capital investment and build up a long-term relationship with Japanese clients. Competition is fierce. There are more than 460 agencies in Japan that handle overseas trips. One of the largest, JTB, has a staff of 10,000. On the other hand, particularly on the West Coast, many American hotels cater to Japanese tourists and have worked out arrangements with Japanese travel agencies to provide accommodations and related services to group tours. Hawaii is itself actively promoting business through the Hawaii Visitors' Bureau, organizing trips by Japanese travel agents and offering incentives to lure business conventions to the state.

Structure of the Tour Industry in Japan

Three major travel agencies (Japan Travel Bureau, Travel Development Corp. (Japan Airlines-affiliated) and Kintetsu International Express) and numerous smaller firms compete in the outbound travel market. Large agencies rely on a national network of branches from northern Hokkaido to tropical Okinawa to attract potential clients. Group travel is a vital part of the marketing effort, and sales of package tours have the largest share of the travel business. Either tours are formed by groups who choose an agent to design a specific trip or the agent puts together a package and sells it. The former case includes groups of personal friends, business colleagues, members of agricultural cooperatives and companies whose employees are traveling for specific purposes, such as business conventions. In the second, more competitive category are the trips which have been marketed by the agent, carrying an attractive price, destination, schedule and theme. Competent escorts who are fluent translators and can anticipate client needs are, of course, vital to the reputation and credibility of the travel agencies.

Since travel agencies have to target unidentified, diverse types of clients, their most vital tool is extensive market research, ranging from general economic conditions to changing lifestyles, seasonal and cultural events (both in Japan and abroad). Each season's strategy reflects new patterns of social change. For example, there has been a gradual shift from completely scheduled group tours to more relaxed alternatives to suit the growing sophistication of Japanese who do not want to travel entirely on their own but would like more freedom to wander off the beaten track. The latest of these tours lets travelers arrange their own hotels and sightseeing and offers only the air flights and information on selected accommodations.

Travel agencies train their staff carefully for this lucrative business. Most Japanese tourists who visit the U.S. Mainland are well-educated and reasonably affluent and their taste in hotels and meals is above average. Group tours always stay at first-class hotels and meals are carefully chosen for variety and cuisine. Shopping is also important, and Japanese tourists on a shopping spree are noticeable in London, Paris and Rome, where their eagerness to buy the most expensive goods draws both criticism and attention. In Paris, the major couturiers and perfumeries now have Japanese-speaking sales clerks.

All Japanese travel agents emphasize the importance of minute attention to the travelers' needs. Unlike American and European tourists, who prefer to be on their own, Japanese tourists demand constant attention and a degree of service which would baffle American agents. This profoundly cultural expectation has convinced Japanese travel agencies that only they can satisfy Japanese clients.

Characteristics of Japanese Tourists

The rapid growth of package tours in the last 15 years created an influx of tourists who had not previously traveled overseas. To ease any culture shock and court a favorable response from these new consumers, some hotels in Hawaii and on the West Coast have installed Japanese-language explanations and hired Japanese-speaking house staff. A more serious problem in this context has been the sharp criticism from Thailand, Taiwan and South Korea that Japanese male tourists too visibly pursue sexual pleasures. This image problem has fueled wide media coverage and has been accompanied by Japanese government warnings to travel agencies that cater to these groups. The dilemma of Asian countries with developing economies, however, is that they rely heavily on revenues from foreign tourists and any decline in numbers is a blow. In order to balance the situation, major travel agencies try to offer attractive Asian tour programs for families, women and students.

The image of rich Japanese tourists, which seems to be pervasive, has led to an alarming increase in the proportion of crimes committed against Japanese travelers. Robberies, muggings and murders have been reported. There can be no doubt that their habit of carrying large amounts of cash and expensive cameras has made them conspicuous targets. The idea of security is little understood in Japan, which has a very low crime rate. Even when they are victimized, tourists are reluctant to pursue the issue in a foreign country. Some improvement may be expected if information about personal safety is available in particular cities to sensitize Japanese visitors. A recently published guidebook on restaurants, for example, explains in detail whether the cities are safe and what precautions are needed.

As more travel agencies have entered the overseas tour business, an increasing number of complaints about misrepresentation of services have surfaced. The government has now introduced more control over the agencies' activities, including spot inspection, monitors and seminars for agency representatives and attendants.

Business and Tourism

Japan's global balance in international leisure travel (excluding transportation) continues to record a large deficit, rising from $1 billion in 1977 to $2 billion in 1981 as shown in Table 3. These figures have kept pace with the rising deficit in the overall international travel account and services trade as a whole. Bilaterally, too, Japan runs a deficit in services trade with the United States. As shown in Table 4,*Japanese tourist spending in the United States has increased from $410 million in 1975 to $699 million in 1979.

The continued increase in the number of Japanese tourists going abroad has stimulated Japanese investment in overseas tourist facilities, particularly hotels. Between 1972 and 1973, Japanese investors purchased eight hotels in Hawaii. In 1974, all the Sheraton hotels in Waikiki and the Sheraton Maui were purchased by a Japanese firm. Interest in real estate in Hawaii has expanded steadily, as Japanese developers have begun to build condominiums, apartments, golf courses and shopping centers. Japan Airlines also owns five hotels and has an interest in more than ten others.

On balance, enthusiasm for overseas travel is likely to expand as popular attitudes toward vacations rapidly approach American/European views. Japan's postwar generation is accustomed to an affluent lifestyle and has been greatly influenced by media coverage of foreign countries. The marketing of enticing overseas resorts and cities has triggered a growing awareness of the potential for foreign travel among college students and office workers. Although group tours will continue to appeal to the mainstream travelers, agencies are beginning to diversify their programs to provide more free time. Increasingly, more individuals will take advantage of the cheaper air fares offered by group tours but will travel independently, particularly as the younger generation improves its language skills. The United States is the country most of these travelers want to visit, and as they become more sophisticated, their horizons will expand beyond the traditional West Coast sites. This development will create a greater need for the American market to respond with incentives to accommodate these Japanese tourists.

Footnotes

[1] White Paper on Tourism, Office of the Prime Minister (Tokyo, 1982).

[2] See: Japan, United States Department of Commerce (Washington, D.C., 1978).

[3] Foreign Investment in Hawaii, Hawaii International Services Agency, Department of Planning and Economic Development, 1979.

[4] The White Paper on Tourism lists 466 agencies that handle both domestic and overseas trips, 4,813 agencies for domestic trips, and 6,761 branch offices.

For further information, contact Fumiko Mori.

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*Table 4 is omitted.

Table 1

Destination of Japanese Tourists by Country

Country	1979 Number	1979 Percent Change	1980 Number	1980 Percent Change	1981 Number	1981 Percent Change
South Korea	649,707	-3%	468,415	-8%	506,819	8%
Taiwan	693,671	11	654,413	-6	592,682	-9
Hong Kong	501,034	4	465,987	-7	501,766	8
Philippines	253,717	8	262,785	4	193,146	-27
Macao	225,882	4	201,608	-11	172,383	-14
Singapore	260,988	19	298,593	14	364,213	22
Thailand	200,333	3	225,433	13	214,628	-5
Malaysia	102,673	-13	113,486	11	129,586	14
United States	1,089,000	23	1,125,000	3	1,165,000	4
Hawaii	577,491	25	568,190	-2	592,000	n.a.*
Guam	190,810	18	221,910	16	225,130	15
Canada	158,582	24	162,253	2	146,661	-10
France	422,000	17	400,000	-5	n.a.	n.a.
Italy	259,860	20	228,229	-12	n.a.	n.a.
West Germany	302,787	20	289,189	-4	n.a.	n.a.
United Kingdom	220,400	9	185,300	-16	200,300	8
Switzerland	230,110	16	216,197	-6	226,869	5
Spain	70,995	1	88,035	24	86,731	-1
Total	4,038,298	15	3,909,333	-3	4,006,388	2

*Statistical method changed.

Source: Ministry of Transportation

Table 2

Foreign Visitors to Japan

	1979			1980			1981		
	Number	Percent Share	Percent Change	Number	Percent Share	Percent Change	Number	Percent Share	Percent Change
North America									
United States	301,926	27.1%	-4%	319,017	24.2%	6%	353,151	22.3%	11%
Canada	34,476	3.1	0	41,045	3.1	19	44,869	2.8	9
Mexico	8,121	0.7	-14	12,136	0.9	49	15,911	1.0	31
Subtotal	348,190	31.3	96	376,753	28.6	8	418,708	26.4	11
South America									
Subtotal	25,129	2.3	6	29,371	2.2	17	31,849	2.0	8
Europe									
United Kingdom	72,100	6.5	10	90,867	6.9	26	121,525	7.7	34
West Germany	38,216	3.4	7	39,661	3.0	4	40,888	2.6	3
France	22,230	2.0	-4	25,860	2.0	16	27,624	1.7	7
Subtotal	219,294	19.7	0	255,199	19.4	16	297,927	18.8	17
Africa									
Subtotal	9,351	0.8	-8	12,169	0.9	30	15,305	1.0	26
Asia									
China	12,195	1.1	69	21,220	1.6	74	18,142	1.1	-15
Taiwan	187,931	16.9	64	261,851	19.9	39	334,381	21.1	28
Hong Kong	27,203	2.4	0	34,959	2.6	29	49,591	3.1	42
China*	731	0.1	-37	1,205	0.1	65	1,132	0.1	-6
South Korea	103,207	9.3	9	109,136	8.3	6	150,335	9.5	38
Philippines	40,204	3.6	20	42,934	3.3	7	52,399	3.3	22
Thailand	19,711	1.8	1	21,274	1.6	8	28,275	1.8	33
India	16,917	1.5	7	23,728	1.8	40	24,161	1.5	2
Indonesia	16,486	1.5	-8	22,434	1.7	36	30,740	1.9	37
Malaysia	14,880	1.3	16	20,327	1.5	37	29,099	1.8	43
Singapore	12,932	1.2	10	18,368	1.4	42	25,415	1.6	38
Other	26,033	2.3	-5	29,891	2.3	15	29,756	1.9	0
Subtotal	478,430	43.0	24	607,327	46.1	27	773,426	48.9	27
Oceania									
Australia	25,376	2.2	-25	27,530	2.1	9	33,559	2.1	22
Subtotal	30,251	2.7	-22	33,678	2.6	11	43,307	2.7	29
Other									
Subtotal	1,961	0.2	7	2,135	0.2	9	2,521	0.2	18
Grand Total	1,112,606	100.0	7	1,316,632	100.0	18	1,583,034	100.0	20

*Includes Chinese nationals whose passports were issued by Singapore, Malaysia and other countries.

Source: Ministries of Justice and Transportation

Table 3

Travel in Japan's Balance of Payments

(in billions of dollars)

	1977	1978	1979	1980	1981
Total Travel					
Receipts	$0.4	$0.5	$0.6	$0.6	$0.7
Payments	2.2	3.7	4.8	4.6	4.6
Balance	-1.8	-3.2	-4.2	-4.0	-3.9
Travel for Pleasure					
Receipts	0.3	0.3	0.3	0.4	0.5
Payments	1.3	2.3	2.9	2.6	2.6
Balance	-1.0	-1.9	-2.6	-2.2	-2.1
Services Account Balance	-6.0	-7.4	-9.4	-11.3	-13.6

Source: Bank of Japan, Balance of Payments Monthly

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U.S.-JAPAN COMPETITION IN CONSTRUCTION EQUIPMENT

SUMMARY

The $10-billion U.S. construction equipment industry is currently mired in its worst recession in at least a quarter-century, with few signs of recovery on the horizon. Domestic demand for bulldozers, loaders, excavators, scrapers, cranes and other types of construction equipment for use in building construction, civil engineering and surface mining has plunged. Exports, which have traditionally cushioned drops in U.S. sales, have contracted sharply as well. The American industry's problems are compounded by increasingly stiff competition from Japanese makers, particularly Komatsu, Ltd., second only to world leader Caterpillar Tractor Co. in earthmoving equipment. Like their U.S. counterparts, Japan's construction equipment manufacturers are saddled with a depressed home market that is not expected to turn around in the near future. They have therefore set their sights on capturing a larger share of international trade, traditionally the province of American companies. The losers in the U.S.-Japan battle for market share are likely to be financially strapped second-tier American producers, but the winners are expected to include Caterpillar as well as Komatsu.

Japan's Industry Comes of Age

Under mounting pressure in the early 1960s to open the manufacturing sector to foreign capital investment, the Japanese government opted to buy time for promising industries like motor vehicles and electronics by allowing foreign manufacturers to move into the fledgling constructin equipment industry. Caterpillar Tractor Co. — then, as now, the indisputable world champion in earthmoving and construction equipment — quickly took advantage of the opening. In 1963, it teamed up with Mitsubishi Heavy Industries, Ltd., a diversified heavy-equipment maker and the number-two Japanese constructin equipment builder at the time, and formed equally owned Caterpillar Mitsubishi Ltd. to manufacture Caterpillar-licensed earthmoving equipment and market products imported from the American parent.

Afraid of being crushed in their own backyard by the industry giant, many of Japan's constructin equipment producers scrambled to acquire product and process technologies from American and European manufacturers. Top maker Komatsu, Ltd. tied up first with Bucyrus-Erie Co. to manufacture excavators based on the Milwaukee, Wisconsin firm's technology and then with International Harvester Co. to turn out small front-end wheel loaders under license. Kobe Steel, Ltd. bought constructin equipment licenses from three firms: Wisconsin-based Harnischfeger Corp. (mechanical and hydraulic cranes), West Germany's Liebherr-Hydraulieoagger GmbH (hydraulic excavators) and Fiat S.p.A. of Italy (front-end wheel loaders). Ishikawajima-Harima Heavy Industries Co., Ltd. signed an agreement with Koehring Co. of Milwaukee, Wisconsin to produce hydraulic excavators and cranes under license, while Sumitomo Heavy Industries, Ltd., another diversified heavy-equipment manufacturer, acquired Chicago-based FMC Corp.'s hydraulic-excavator and crane technology. Hydraulic-excavator technology was purchased as well by Japan Steel Works, Ltd. (Orenstein und Koppel AG of West Germany), Yutani Heavy Industries, Ltd. (Porclain S.A. of France) and Mitsubishi Heavy Industries (France's Yumbo S.A.).

Armed with imported technologies and an increasing body of domestically developed know-how, Japan's constructin equipment manufacturers were able to capitalize on the boom in civil engineering and construction work that occurred during the high-growth 1960s and early 1970s. Large public-works projects like highway, bridge and railroad construction solidified the position of bulldozers as the industry's premier piece of equipment and, in the process, bolstered the fortunes of Komatsu, the dominant maker of this product. The proliferation of smaller public-works projects, such as the construction of streets and water and sewer systems, and the growing number of residential construction starts gave the output of hydraulic and mechanical excavators a major boost, as well as helped to expand the production of wheel and crawler (tracklaying) loaders. Moreover, with many new factories, offices and other commercial buildings, schools and hospitals under construction, the output of truck-mounted cranes went up.

The 1973-74 oil crisis and the ensuing recession in Japan brought an end to the fast-paced pulled expansion of the domestic constructin equipment industry. Large civil-engineering projects slowed to a trickle and even smaller public-works projects were pared back, while private residential and nonresidential construction starts dropped. As a result, production of bulldozers, excavators, loaders, cranes and other types of construction equipment marked time from 1973 through most of 1977.

The government's pump-priming supplementary FY 1977 and original FY 1978 budgets gave the constructin equipment industry the boost it needed to get over the slump. The value of new work contracted by the national government as well as by prefectural and local governments jumped by over one-fourth in 1977 and remained at the same high level the next year, with roads, schools and hospitals, water and sewer systems and erosion and flood control receiving particularly large appropriation increases. But the recovery in production was uneven, partly because public-works spending was skewed toward small and medium-sized projects and partly because new housing starts, which had expanded sharply in 1976, leveled off in the 1977-78 period and private nonresidential construction remained in the doldrums. The upshot was that hydraulic excavators replaced bulldozers in 1977 as the Japanese industry's top production item, while crane production stagnated and output of more maneuverable wheel loaders expanded at the expense of crawler loaders.

The rebound in domestic demand for construction equipment was not only uneven but also short-lived. Concerned about mounting budget deficits, government at all levels began to apply the brakes to public-works spending in FY 1979 and FY 1980; as a result, the value of public construction started in those two years did not increase by much more than the inflation rate. Moreover, residential construction starts slipped in 1979 and then fell 15 percent the following year. Some increase in industrial and commercial building took up part of the slack from other sectors, but did little to change the overall picture of sluggish new domestic orders for construction equipment.

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With domestic demand faltering, Japanese constructin equipment makers started to zero in on export sales. Overseas shipments were relatively unimportant to the industry during the high-growth years of the 1960s and early 1970s, but after the first oil crisis manufacturers began to pursue exports more systematically. During the mid-1970s, in fact, exports kept the industry afloat, especially bulldozer/crawler tractor producers, which shipped as much as half of their output abroad during this period. The 1977-78 upsurge in domestic orders again took the pressure off export sales, but the reprieve was only temporary for expansion-minded manufacturers.

In trying to expand their export business, many Japanese manufacturers, particularly hydraulic-excavator builders, quickly ran into what they considered to be major roadblocks: the restrictions foreign constructin equipment companies had placed on exports by their Japanese technology licensees and/or sales partners. Under the licensing agreements signed in the early 1960s, Japanese producers could not export products based on imported technology to specified foreign markets, usually including the United States. Some technology contracts also gave the foreign company veto power over the development and introduction of competing products by its Japanese licensee. The sales agreements generally prevented Japanese makers from exporting on their own.

Japanese manufacturers maintained that the licensing agreements had outlived their usefulness since they had independently developed and honed product and process technologies that were at least equal to foreign know-how, if not superior. Producers with licensing contracts also found themselves at a competitive disadvantage not only vis-a-vis American and European makers but also in relation to Japanese manufacturers like Hitachi Construction Machinery Co., Ltd. (hydraulic excavators) and Furukawa Co., Ltd. (wheel loaders) that had steered clear of foreign technology and emerged as Japan's top exporters in their product line.

Backed by Japan's Fair Trade Commission, which concluded in 1979 that contracts restricting exports or the development of competing products violated the country's antimonopoly laws, construction equipment manufacturers set out to gain a free hand in production and exports by dissolving or at least revising their agreements. Mitsubishi Heavy Industries and Caterpillar modified their licensing agreement in 1979 to allow the Japanese maker to turn out any product that does not compete head-to-head with Caterpillar products. In the messiest breakup, Komatsu and Bucyrus-Erie terminated their hydraulic-excavator joint venture in early 1981; a year later, Komatsu acquired International Harvester's stake in their joint wheel-loader business after the American firm started selling off some of its assets. Kobe Steel canceled the technology contracts with its two European licensors during the 1979-80 period, and last year it bought out its contract with Harnischfeger. In addition, Japan Steel Works, Yutani Heavy Industries and Mitsubishi Heavy Industries ended their hydraulic-excavator technology agreements, while Ishikawajima-Harima Heavy Industries and Koehring terminated their technical-licensing and sales agreement in 1980, five years after they dissolved their production tie-up. Only Sumitomo Heavy Industries and FMC maintain a basically unchanged relationship, although the Japanese firm is pushing for some modifications in the arrangement.

Mature U.S. Industry Banks on Exports

American construction equipment companies that had licensed technology to Japanese manufacturers were generally reluctant to terminate the contracts. The potential loss of royalty income figured into this unwillingness, as did the prospect of forfeiting a low-cost source of supply for certain products and giving up a low-risk means of maintaining a presence in the Japanese market. Far more important, though, U.S. builders did not want to unleash new Japanese competition for sales in third markets at a time when the traditional importance of exports to the financial health of American makers was being heightened by a slide in domestic demand.

In the United States, just as in Japan, demand for most types of construction equipment peaked in 1978 or 1979. Sales of the small and medium-sized machines contractors use for excavation and construction of water and sewer lines and new roads in housing developments — backhoes, graders, wheel loaders and bulldozers — were strong in both 1977 and 1978, buoyed by the high level of residential construction starts in those two years. But demand stalled in 1979 when housing activity leveled off and then plunged as housing starts went into a skid and tumbled in 1981 to their lowest level since 1946.

A 1979 upturn in commercial and industrial building construction — which together with housing generates about 30 percent of U.S. demand for construction equipment — provided manufacturers of small and medium-sized equipment some new business, but not enough to offset the drop in sales to housing contractors. Moreover, in a double blow to these producers, most types of private nonresidential construction slowed down in 1980 and again last year. The major exception to this trend was office-building construction, which continued to boom to the benefit of manufacturers of construction cranes.

The domestic market for large pieces of construction equipment -- bulldozers, scrapers, graders, rollers, wheel and crawler tractors and loaders and off-highway trucks — generally topped out in 1979. Construction of highways, bridges, sewer and water-supply systems, schools and other public works, which account for roughly 40 percent of U.S. construction equipment sales, slowed significantly in 1980 and 1981 after registering selective increases in the late 1970s. Part of this slowdown reflected the virtual completion of the interstate highway system, the declining need for new schools and the impact of scaled-back housing starts on water and sewer requirements. The primary cause, however, was a cut in the federal budget, which directly or indirectly determines about two-thirds of all public-works spending, as well as a similar decline in state and local expenditures.

The other major U.S. market for large construction equipment is coal strip mining and other surface mining, including quarrying. Shipments to this market, which represents an estimated 30 percent of domestic construction equipment sales, remained good in the late 1970s and the first two years of the 1980s, but since the long-anticipated boom in coal mining has yet to materialize, mining companies did not pick up the slack in demand for large machines caused by the downturn in public-works activity.

With domestic business going downhill after 1978 or 1979, American construction equipment manufacturers turned to the substantial export market to cushion the slide at home. Largely because of Caterpillar's market position, the U.S. industry has always been the world's dominant supplier of construction equipment, especially large earthmoving and surface-excavation machinery. This leadership role was built in part on the high performance and reliability of American-made equipment and the continuing stream of design innovations incorporated in it. A well-financed worldwide dealer, service and parts-distribution network was instrumental too, particularly for Caterpillar, which some industry analysts say has the best dealer organization of any company in any industry. The large volume of business American construction companies do abroad also played a role in the success of U.S. exporters, since these contractors normally specify American-made equipment for their projects. In addition, U.S. manufacturers faced only a limited number of foreign competitors in a limited number of overseas markets.

These factors, plus the geographical diversity of export sales, stood U.S. makers in good stead in 1980. With shipments up to all regions but especially to the Middle East, Africa and Latin America, and with major export items like crawler tractors, wheel loaders and construction cranes selling particularly well abroad, export earnings expanded by an estimated 22 percent. This gain did not prevent the value and the volume of U.S.

output from declining in 1980. It did, however, mean the difference between just a disappointing year and a bad year for American manufacturers, as they shipped roughly 38 percent of their production abroad.

Exports provided an even larger margin of difference in 1981, when the export ratio reached approximately 43 percent. In fact, the estimated 13-percent increase that occurred in overseas deliveries was enough to offset the decline in domestic sales and slightly raise the total value of production. But this good news was tempered by two ominous developments. One was that unit shipments declined last year for the third year in a row. The other was that sales to key foreign markets like Europe, Canada and Asia fell, often sharply, in 1981, while exports to Latin America marked time.

Competition for Export Markets Intensifies

The economic slowdown experienced last year by most European nations and Canada as well as by many developing countries obviously affected the overseas marketing activities of U.S. construction equipment manufacturers. At the same time, though, 1981 was really the first year American exporters felt the full competitive thrust of their Japanese counterparts.

Japan's construction equipment manufacturers confronted many of the same problems in their home market in 1981 as U.S. makers did: housing starts at their lowest level in 14 years, curtailed private nonresidential construction activity and, most importantly, scaled-back funding of public-works projects. Given this depressed domestic market environment, Japanese builders, not surprisingly, redoubled their export efforts, which had succeeded in 1980 in lifting yen-calculated overseas sales by roughly 24 percent and thereby keeping the value of production on the increase.

The intensified emphasis on exports proved to be the Japanese industry's salvation last year as well. Foreign sales measured in yen expanded by an additional 21 percent or so and offset the impact of slumping domestic demand to such an extent that the value of output was off only marginally. Particularly for Komatsu, which accounts for perhaps half of total Japanese construction equipment exports, a jump of one-third in exports was the deciding factor between a sales increase and a sales decline in 1981 since its domestic sales fell by 5 percent.

Last year's overseas sales expansion, which boosted the export ratio from 1980's 31-percent level to 38.1 percent, was paced by stepped-up sales of both bulldozers/crawler tractors and hydraulic excavators -- the top export earners -- to the resilient Middle East market. Soaring sales of bulldozers/crawler tractors to the Soviet Union also swelled exports, as did larger deliveries of these machines to Latin America and Africa. What made 1981's export gain all the more impressive was that sales to Southeast Asia, Japanese makers' main overseas market, fell rather significantly, particularly for bulldozers/tractors but also for hydraulic excavators.

Japanese makers have parlayed several advantages to make inroads in overseas markets outside their Southeast Asian stronghold. Perhaps the key one, at least in their view, is that Japanese-made machines offer superior performance and surpass the competition's products in reliability, largely because of the extensive use of microprocessor and other electronics technologies. Lower production costs, the result in part of state-of-the-art manufacturing equipment, have also enhanced the international competitive strength of Japanese producers. Underpricing Caterpillar, the industry's worldwide price leader, has also been a factor, but a secondary one, according to manufacturers in Japan, particularly since Caterpillar and everyone else has resorted to discounting to counter the spreading slump in world demand.

Cracking the U.S. Market Proves Hard

These factors have turned Japanese construction equipment manufacturers, especially Komatsu, into formidable competitors of American companies in third markets. In many respects, though, Japan's exporters regard their ability to crack the American market as the real litmus test of international competitiveness. So far, only the top Japanese maker has passed the test, capturing perhaps 3 percent of the domestic earthmoving equipment market. In part, this is because Komatsu has had a U.S. marketing organization since 1970. The other major Japanese construction equipment companies now selling in the United States under their own brand names — Furukawa, Hitachi Construction Machinery, Japan Steel Works, Kawasaki Heavy Industries, Ltd., Kobe Steel and Mitsubishi Heavy Industries — did not begin marketing here until the late 1970s. Their entry generally coincided with 1978's steep appreciation in the value of the yen. More importantly, these companies came into the U.S. market just when domestic demand for most types of construction equipment was peaking.

The type of equipment Komatsu markets in the United States has also worked to its advantage. Its full lines of crawler tractors (14 models ranging from 63 horsepower up to 620 horsepower) and crawler loaders (seven models with bucket capacities from 1 cubic yard up to 5.9 cubic yards), as well as its recently introduced dump truck line, compete in comparatively healthy segments of the U.S. market. In contrast, the four Japanese makers selling hydraulic excavators in the United States — Hitachi Construction Machinery (eight models spanning a full range of bucket capacities), Japan Steel Works (six models, generally in the small bucket-capacity class), Kobe Steel (five small-capacity-class models) and Mitsubishi Heavy Industries (three models in the small-capacity class) — are trying to generate sales for a product that has never been used as extensively here as in Japan or Europe and at a time when even established American hydraulic-excavator makers are having sales problems. Moreover, the three Japanese companies marketing wheel loaders — Furukawa (three models), Kawasaki Heavy Industries (five models) and Kobe Steel (four models) — are fighting for sales in one of the most crowded and competitive parts of the business.

Construction Equipment Industry Goes into a Tailspin

Selling construction equipment in the United States this year has become considerably tougher for Japan's second-tier makers and for Komatsu too, since they are being forced to compete for a slice of a shrunken pie. Demand in all major end markets -- civil engineering, housing construction, industrial and commercial building and surface mining -- has skidded, a casualty of high interest rates, further cutbacks in public-works funding, the oil glut and the recession itself, and no alternative markets have developed to take up any of the slack.

By itself, the current slump in domestic demand would have been enough to send U.S. makers reeling, capping, as it does, two or three years of progressively softening business at home. But, in a double blow, the market for construction equipment has turned down in the Middle East, Africa and Australia and demand has contracted further in Europe, Canada, Latin America and Southeast Asia. According to industry analysts, this is the first time in twenty-five years or so that demand for construction equipment has been off in every major world market.

No American construction equipment producer has been spared. The most graphic demonstration of this fact is that Caterpillar, which posted record sales and earnings in 1981 while most other makers were faltering, is predicting its first yearly non-strike-related loss since the early 1930s. Deere & Co., thought to be the number-two U.S.

manufacturer but a distant second to Caterpillar, had an operating loss on its construction equipment sales in the year ending in October 1981 and is expected to announce another loss for the fiscal year just ended. With the industry generally operating at only one-third to one-half of capacity, other makers like Clark Equipment Co., Harnischfeger, Bucyrus-Erie and Tenneco Inc.'s J.I. Case unit are also predicting losses this year for their construction equipment businesses.

With most industry analysts and even some company executives not expecting a solid recovery in construction equipment sales until 1985 or 1986, changes in the structure of the U.S. industry might be in the offing. In fact, consolidation of operations has already started to occur. Just last week, International Harvester sold its construction equipment business to Dresser Industries Inc., which manufactures the Galion line of road-building machines. Two years ago, General Motors Corp. sold its Terex construction equipment subsidiary to IBH Holding AG, a West German conglomerate that is the world's third-largest maker of earthmoving equipment. Moreover, Allis-Chalmers Corp. is trying to pull out of its joint venture with Fiat, Fiatallis Inc., which operates one plant in the United States and two in Italy.

Caterpillar and, to a lesser extent, Deere are likely to be the main beneficiaries of any shake-out. They are already two of this country's strongest and best-run companies, and both continue to invest heavily in computer-aided engineering and manufacturing systems, robots and other production technologies that contribute to enhanced productivity and quality, as well as in new product development. In addition, the two have extremely strong sales networks, both here and abroad.

A shake-out among American construction equipment makers could also work to the benefit of Komatsu and perhaps some of Japan's other makers. Japanese producers as a group are weathering the slump in their own market and in the international market surprisingly well, mainly because the yen's steep drop in value since the start of the year has enabled them to capture much of what limited new business has developed in markets outside the United States. Through the first half of 1982, in fact, the number of Japanese-made machines shipped abroad was up significantly in almost all product lines. U.S. exporters, in contrast, saw their shipments drop across the board.

Despite rising exports, Japanese makers are not sanguine about the future because of the deepening slump at home. Least confident are the large number of companies turning out hydraulic excavators. Outside of Komatsu, Hitachi Construction Machinery and Mitsubishi Heavy Industries, the biggest producers, most of these manufacturers are reportedly operating in the red. Seven of them have already informally paired up to cut production costs. In addition, they as well as other manufacturers, including Komatsu, are trying to lessen dependence on construction equipment by diversifying into other fields.

For further information, contact Susan MacKnight.

* * * * * *

Table 1: U.S. Shipments of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars; quantity in units)

	1977	1978	1979	1980	1981
Value					
Hydraulic Excavators	$423,929	$553,731	$609,354	$474,826	$375,792
Mechanical Excavators	170,019	179,332	143,342	114,392	104,801
Draglines	349,626	416,028	385,120	297,131	182,104
Crawler-Mounted Mechanical Cranes	286,848	274,303	323,177	301,385	303,129
Truck-Mounted Mechanical Cranes	125,271	127,319	156,169	136,047	140,304
Hydraulic Cranes	427,636	546,755	666,736	700,037	846,380
Attachments and Parts for Excavators, Draglines and Cranes	439,870	529,911	518,070	626,909	650,380
Front-End Wheel Loaders	1,131,194	1,443,899	1,472,097	1,456,326	1,398,451
Front-End Crawler Loaders	219,565	284,999	287,677	240,764	207,019
Wheel Loaders/Backhoes	212,862	278,269	356,956	306,736	315,639
Contractors' Off-Highway Wheel Tractors	435,816	546,901	546,117	487,950	476,593
Crawler Tractors	1,136,297	1,404,331	1,322,150	1,306,144	1,569,905
Dozers, Backhoes and Other Attachments for Mounting on Prime Movers	457,803	580,418	664,950	618,802	662,162
Motor Graders	324,626	391,239	427,144	493,948	469,688
Self-Propelled Rollers	140,231	182,445	216,795	258,426	255,877
Scrapers	197,874	257,287	246,052	180,879	194,291
Self-Propelled Ditchers and Trenchers	85,134	127,493	127,797	105,934	118,395
Quantity					
Hydraulic Excavators	5,063	5,978	5,729	3,972	2,921
Mechanical Excavators	176	197	145	72	65
Draglines	34	50	73	77	43
Crawler-Mounted Mechanical Cranes	1,113	1,064	1,155	1,058	780
Truck-Mounted Mechanical Cranes	663	541	595	468	410
Hydraulic Cranes	4,956	5,982	8,376	8,527	9,146
Attachments and Parts for Excavators, Draglines and Cranes	n.a.	n.a.	n.a.	n.a.	n.a.
Front-End Wheel Loaders	36,628	41,815	48,137	41 040	30,083
Front-End Crawler Loaders	6,179	7,036	6,277	4,440	3,286
Wheel Loaders/Backhoes	20,204	21,704	23,028	17,602	15,481
Contractors' Off-Highway Wheel Tractors	8,984	9,242	8,267	6,895	5,664
Crawler Tractors	19,968	22,057	19,812	16,503	15,789
Dozers, Backhoes and Other Attachments for Mounting on Prime Movers	99,590	123,625	140,615	113,774	109,396
Motor Graders	6,706	7,372	7,257	7,165	5,947
Self-Propelled Rollers	9,537	10,534	11,096	10,111	7,253
Scrapers	4,915	4,420	4,075	2,571	2,403
Self-Propelled Ditchers and Trenchers	11,051	14,436	13,241	9,502	8,952

Source: U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports: Construction Machinery (MA-35D)

Table 2: Total U.S. Exports of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars; quantity in units)

Value	1977	1978	1979	1980	1981
Hydraulic Excavators	$ 79,349	$ 87,480	$121,745	$163,125	$147,278
Mechanical Excavators	105,706	36,861	48,863	72,935	49,756
Draglines	n.a.	14,847	1,635	1,092	5,227
Crawler-Mounted Mechanical Cranes	n.a.	88,019	86,605	132,323	156,019
Truck-Mounted Mechanical Cranes	n.a.	83,175	73,975	77,631	114,198
Hydraulic Cranes	n.a.	243,280	302,871	378,097	425,959
Attachments and Parts for Excavators, Draglines and Cranes	n.a.	487,418	433,263	542,928	519,783
Front-End Wheel Loaders	373,158	347,560	461,418	659,431	644,353
Front-End Crawler Loaders	44,935	49,620	62,407	73,002	92,490
Wheel Loaders/Backhoes	n.a.	69,371	83,081	91,213	96,262
Contractors' Off-Highway Wheel Tractors	121,033	169,612	196,580	255,280	200,587
Crawler Tractors	491,200	566,279	650,848	774,550	956,734
Dozers, Backhoes and Other Attachments for Mounting on Prime Movers	57,688	72,706	90,654	107,106	136,828
Motor Graders	159,298	190,733	183,866	290,407	356,097
Self-Propelled Rollers	68,902	64,325	82,154	107,496	134,423
Scrapers	118,907	84,795	118,445	127,036	212,358
Self-Propelled Ditchers and Trenchers	18,770	26,065	39,097	41,403	37,010
Quantity					
Hydraulic Excavators	819	868	1,059	1,333	1,039
Mechanical Excavators	413	139	136	206	141
Draglines	n.a.	n.a.	4	4	2
Crawler-Mounted Mechanical Cranes	n.a.	333	290	312	300
Truck-Mounted Mechanical Cranes	n.a.	795	547	614	737
Hydraulic Cranes	n.a.	2,480	2,753	3,200	3,259
Attachments and Parts for Excavators, Draglines and Cranes	n.a.	n.a.	n.a.	n.a.	n.a.
Front-End Wheel Loaders	10,315	7,408	10,049	12,334	10,374
Front-End Crawler Loaders	957	1,007	1,117	1,211	1,422
Wheel Loaders/Backhoes	n.a.	3,345	3,505	3,824	3,498
Contractors' Off-Highway Wheel Tractors	2,761	2,345	2,546	2,824	1,859
Crawler Tractors	6,897	7,299	6,902	7,061	7,466
Dozers, Backhoes and Other Attachments for Mounting on Prime Movers	14,181	22,831	24,446	27,995	29,755
Motor Graders	3,170	3,898	3,550	4,581	4,565
Self-Propelled Rollers	2,890	2,044	2,483	2,700	3,144
Scrapers	1,431	1,227	2,002	1,799	1,890
Self-Propelled Ditchers and Trenchers	2,358	1,763	2,504	2,536	2,101

Source: U.S. Department of Commerce, U.S. Exports (FT 410)

Table 3: Total U.S. Imports of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars; quantity in units)

	1977	1978	1979	1980	1981
Value					
Backhoes, Excavators, Clamshells and Draglines	$ 7,636	$31,505	$20,081	$39,973	$28,518
Cranes	n.a.	8,119	10,275	2,173	5,953
Front-End Wheel Loaders	33,757	63,962	62,741	70,171	78,635
Front-End Crawler Loaders	13,540	74,291	46,508	37,606	31,721
Contractors' Off-Highway Wheel Tractors	n.a.	2,480	6,206	1,925	1,641
Crawler Tractors	3,854	5,875	1,933	1,949	2,636
Excavating, Leveling, Boring and Extracting Equipment	189,031	226,859	185,698	136,724	119,259
Parts and Attachments	199,260	284,351	322,461	352,761	542,344
Quantity					
Backhoes, Excavators, Clamshells and Draglines	760	737	1,743	632	798
Cranes	n.a.	133	132	44	93
Front-End Wheel Loaders	1,885	2,851	2,770	3,225	1,871
Front-End Crawler Loaders	539	2,141	1,390	957	625
Contractors' Off-Highway Wheel Tractors	n.a.	364	706	204	105
Crawler Tractors	136	170	64	99	85
Excavating, Leveling, Boring and Extracting Equipment	13,953	18,044	16,297	11,304	7,443
Parts and Attachments	n.a.	n.a.	n.a.	n.a.	n.a.

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

Table 4: U.S. Imports of Selected Types of Construction Equipment from Japan, 1977-81

(value in thousands of dollars; quantity in units)

	1977	1978	1979	1980	1981
Value					
Backhoes, Excavators, Clamshells and Draglines	$ 1,474	$ 2,040	$ 2,285	$11,107	$ 7,498
Cranes	n.a.	91	0	0	0
Front-End Wheel Loaders	16,071	29,750	36,832	34,680	18,036
Front-End Crawler Loaders	7,233	56,526	35,210	27,561	24,956
Contractors' Off-Highway Wheel Tractors	n.a.	236	72	508	238
Crawler Tractors	3,433	5,726	986	568	204
Excavating, Leveling, Boring and Extracting Equipment	101,902	106,191	68,912	53,835	44,443
Parts and Attachments	45,797	74,895	77,158	61,209	84,340
Quantity					
Backhoes, Excavators, Clamshells and Draglines	355	114	187	312	230
Cranes	n.a.	7	0	0	0
Front-End Wheel Loaders	1,038	1,526	1,570	1,157	551
Front-End Crawler Loaders	327	1,696	1,173	791	452
Contractors' Off-Highway Wheel Tractors	n.a.	32	45	37	40
Crawler Tractors	95	153	30	12	4
Excavating, Leveling, Boring and Extracting Equipment	3,246	4,413	4,134	1,369	1,237
Parts and Attachments	n.a.	n.a.	n.a.	n.a.	n.a.

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

Table 5: Japan's Production of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars*, quantity in units)

	1977	1978	1979	1980	1981
Value					
Hydraulic Excavators	$797,751	$1,617,996	$1,807,055	$1,863,152	$1,850,626
Mechanical Excavators	114,074	244,117	346,495	312,675	305,568
Truck-Mounted Mechanical Cranes	53,722	60,383	62,654	63,112	73,125
Truck-Mounted Hydraulic Cranes	223,828	365,406	463,891	525,201	529,065
Front-End Wheel Loaders	398,071	614,137	775,075	834,568	932,457
Front-End Crawler Loaders	178,157	256,325	222,050	196,022	139,403
Bulldozers	519,578	778,388	834,384	879,814	914,501
Graders and Scrapers	55,056	99,957	112,691	102,315	122,595
Rollers	36,535	86,010	102,606	108,728	125,678
Quantity					
Hydraulic Excavators	28,319	43,972	51,639	54,978	46,749
Mechanical Excavators	790	1,321	1,743	1,733	1,382
Truck-Mounted Mechanical Cranes	346	282	249	336	283
Truck-Mounted Hydraulic Cranes	4,502	5,577	7,129	7,720	7,331
Front-End Wheel Loaders	15,878	18,101	21,619	23,493	22,161
Front-End Crawler Loaders	7,485	8,327	7,829	6,455	3,931
Bulldozers	14,244	16,731	19,155	18,514	16,269
Graders and Scrapers	1,430	2,047	2,123	2,162	3,201
Rollers	17,671	22,214	37,166	55,274	47,935

*The following average annual exchange rates, which reflect the midpoint on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1977, ¥268.51; 1978, ¥210.44; 1979, ¥219.14; 1980, ¥226.74; and 1981, ¥220.54.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics

Table 6: Japan's Total Exports of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars*; quantity in units)

	1977	1978	1979	1980	1981
Value					
Hydraulic Excavators	$142,955	$259,397	$377,409	$500,111	$582,045
Mechanical Excavators					93,154
Truck-Mounted Cranes	n.a.	n.a.	n.a.	n.a.	233,942
Wheel Tractors	41,486	61,321	55,696	96,404	108,256
Bulldozers	40,347	38,980	60,037	116,477	179,384
Crawler Tractors	326,000	459,422	493,326	493,120	552,798
Crawler Tractor Parts and Accessories	84,732	112,420	141,445	157,767	174,916
Self-Propelled Graders	23,191	44,114	44,161	70,797	109,372
Self-Propelled Scrapers	6,933	11,208	19,120	11,372	15,840
Other Self-Propelled Leveling, Tamping and Extracting Machinery	189,928	211,956	240,501	290,237	311,538
Parts for Excavating, Leveling, Tamping and Extracting Machinery	58,329	79,774	93,277	104,467	160,244
Quantity					
Hydraulic Excavators	3,947	6,205	10,792	13,477	15,400
Mechanical Excavators					566
Truck-Mounted Cranes	n.a.	n.a.	n.a.	n.a.	2,968
Wheel Tractors	2,614	3,318	3,140	4,711	5,012
Bulldozers	1,537	1,159	1,518	2,395	2,497
Crawler Tractors	7,784	9,381	9,642	8,555	7,945
Crawler Tractor Parts and Accessories	n.a.	n.a.	n.a.	n.a.	n.a.
Self-Propelled Graders	674	1,063	1,085	1,819	2,345
Self-Propelled Scrapers	70	59	153	88	111
Other Self-Propelled Leveling, Tamping and Extracting Machinery	8,268	8,373	8,036	9,512	8,854
Parts for Excavating, Leveling, Tamping and Extracting Machinery	n.a.	n.a.	n.a.	n.a.	n.a.

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1977, ¥270.42; 1978, ¥212.18; 1979, ¥217.47; 1980, ¥227.67; and 1931, ¥219.90.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 7: Japan's Total Imports of Selected Types of Construction Equipment, 1977-81

(value in thousands of dollars*; quantity in units)

	1977	1978	1979	1980	1981
Value					
Excavators	$1,921	$4,111	$3,863	$1,688	$2,111
Wheel Tractors	993	987	1,839	3,296	2,297
Bulldozers	32	685	909	56	1,223
Crawler Tractors	2,387	11,113	22,306	15,560	20,310
Crawler Tractor Parts and Accessories	3,743	5,865	7,037	6,337	8,755
Self-Propelled Graders	177	680	1,688	718	1,102
Self-Propelled Scrapers	0	101	4,038	5,507	5,348
Other Self-Propelled Excavating, Leveling, Tamping and Extracting Machinery	6,836	20,099	32,869	27,959	16,673
Parts for Excavating, Leveling, Tamping and Extracting Machinery	17,248	13,908	25,150	30,453	38,645
Quantity					
Excavators	180	151	80	29	10
Wheel Tractors	377	210	379	534	327
Bulldozers	2	8	14	2	13
Crawler Tractors	51	110	171	120	143
Crawler Tractor Parts and Accessories	n.a.	n.a.	n.a.	n.a.	n.a.
Self-Propelled Graders	2	11	19	7	11
Self-Propelled Scrapers	0	1	19	25	34
Other Self-Propelled Excavating, Leveling, Tamping and Extracting Machinery	125	204	266	247	135
Parts for Excavating, Leveling, Tamping and Extracting Machinery	n.a.	n.a.	n.a.	n.a.	n.a.

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1977, ¥270.53; 1978, ¥212.17; 1979, ¥217.46; 1980, ¥227.85; and 1981, ¥219.94.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

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JEI REPORT JEI JAPAN ECONOMIC INSTITUTE

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THE SERVICE SECTOR OF JAPAN'S ECONOMY

SUMMARY

With the administration pressing for negotiation of a multilateral regime for services under the General Agreement on Tariffs and Trade (GATT), it is important to understand the service sector of Japan's economy in order to follow the issues and problems as they develop. Several JEI Reports have already examined particular industries in the service sector, including banking (Council Report No. 43, December 21, 1979), consumer credit (JEI Report No. 41, October 22, 1982), food service (JEI Report No. 8A, February 26, 1982), distribution (Council Report No. 18, June 22, 1979), and tourism (JEI Report No. 42A, October 29, 1982). This JEI Report provides an overall perspective on the service sector as a framework for these reports as well as for future analyses of individual service industries. One important point often obscured in discussions but emphasized here is that services trade and the service sector of the economy are not entirely the same. The questions of exposure to international trade and government policy are also examined.

Introduction

This November the United States intends to propose a work program at the GATT ministerial meeting to result eventually in the establishment of an overall framework for services trade similar in concept to the existing GATT framework for merchandise trade. This new interest reflects the realization that the industrialized countries are experiencing a shift in economic structure toward services and that as these enterprises become more important in international trade they will present very different policy issues.

The first fact that must be recognized is that trade in services and the service sector are not the same. This is especially true for the United States. Services implies economic activities that do not produce physical products, although this is a rather nebulous concept and definitions differ somewhat from writer to writer. What is important here is that certain transactions in international trade which fall under the category of services do not correspond to any service industry in the domestic economy, for instance repatriation of profits from foreign direct investments and receipt of royalties from abroad. In 1981, receipt of income from U.S. assets abroad amounted to $90 billion of the total $130 billion in services receipts, and $53 billion of the total $87 billion in services payments. Fees and royalties added another $7 billion to receipts and $800 million to payments. On the other hand, there are significant service sector industries in Japan which have no involvement in international trade — such as rail and highway transportation, utilities and medical care.

Some of the interest in the United States in pursuing a GATT framework for services trade has been predicated on the sizable U.S. surplus in this sector, which appears to demonstrate U.S. strength in these industries. That view must be modified to take account of the incongruence between the service sector and services. When investment income plus fees and royalties are removed, the United States shows a small net deficit of $1.7 billion in 1981. The situation for Japan is explored in detail later in this report.

A partial rebuttal to this argument is possible, however. Since services are not physical goods, they must be sold where consumed. This means that a U.S. service export to Japan, hotel services for example, would either require the Japanese purchaser to travel to the United States, or an American investment in Japan. In the first case, the transaction will show up as a tourism export; in the second case as repatriation of investment earnings. Other services which fall in this category include most business services (law, accounting, management consulting, etc.) and finance. Alternatively, exports can take the form of franchising, as in the case of American fast-food restaurant chains in Japan, which show up as fees and royalties in the balance-of-payments data. Ideally, one could represent service sector trade by subtracting investment income from manufacturing investment and fees or royalties from transfer of manufacturing technology.[1] For the purposes of this report, it is sufficient to be aware that discussion of Japan's service sector and its involvement in trade is not the same as consideration of services trade as a whole.

A second point which should be emphasized is that the service (or tertiary) sector of the economy is very diverse. By definition it is basically every industry or activity that does not fall into the categories of agriculture, forestry, fisheries, mining or manufacturing. In the following analysis, this sector is first considered as a whole, after which the industries composing it are examined in more detail.

A Macroeconomic View

The relative role of the tertiary sector can be measured in a variety of different ways, two of which are used here. Table 1 shows the percentage of gross domestic product (GDP) originating in the tertiary sector and how it has changed over the decade of the 1970s. It would be helpful to carry the changes back farther in time, but the reporting of the sectoral breakdown changed in the late 1970s from net national product (NNP) to gross domestic product, which produces considerably different results and precludes a direct comparison with earlier periods.

As can be seen in Table 1, the share of the tertiary sector is high and has been rising. From 57.2 percent of total GDP in 1970, it rose to 65.4 percent by 1980, reflecting both a drop in the relative share of the primary sector (agriculture, forestry, fishing and mining) from 6.8 percent to 4.4 percent, as well as a drop in the manufacturing sector from 35.8 percent to 30.3 percent. Even though the data are not strictly comparable, the NNP data show that the rise in the share of the tertiary sector has been taking place since at least 1960. However, the pace of change may have slowed, since Table 1 shows little change in the relative share of the tertiary sector since 1975.

Table 2 provides a second measure, giving the relative shares of employment in the three sectors. Here there is no problem of changing measurement bases, so the comparison can be taken back farther. This confirms the trend seen in Table 1. From 44.3 percent of employment in 1960, the tertiary sector expanded to 65.4 percent by

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1980. Most of the change can be attributed to the decline in agricultural employment, as the primary sector's share fell from 33.8 percent in 1960 to 10.9 percent in 1980. Manufacturing, on the other hand, expanded somewhat from 21.9 percent in 1960 to 26.7 percent in 1970, and thereafter dropped slightly, slipping to 23.7 percent by 1980.

All industrial nations have undergone a shift of employment and output away from agriculture toward both manufacturing and services. The important new shift is from manufacturing to services, which in Japan occurred in the 1970s according to both Tables 1 and 2. This is what is referred to as the "post-industrial society", although the term is something of a misnomer since a large share of output and employment continues to be accounted for by the manufacturing sector.

It is also true that Japan has not progressed as far as the United States in the shift from manufacturing to services. Tables 3 and 4 provide a comparison of output and employment shares by sector for the two countries for 1980. Although both countries have approximately the same percentage of output originating in the primary sector, Japan has a much higher proportion than the United States in manufacturing and a smaller contribution from services. In Japan, manufacturing accounts for 30.3 percent of output compared to 21.7 percent in the United States, while services in Japan show 65.4 percent compared to 71 percent in the United States.

Employment provides a somewhat different picture (Table 4). Japan still has a higher proportion of employment in the primary sector (mainly agriculture) than the United States. The percentage in 1980 was 10.6 for Japan versus 4.5 for the United States. The proportion of employment in manufacturing is roughly equal, at 24.7 percent in Japan and 22.2 percent in the United States. In the tertiary sector, Japan again stands out, with employment representing a significantly lower 64.7-percent share than the United States' 73.3 percent.

The differences between the shares of output and employment among the three sectors implies wide variations in value added per worker, which are portrayed in Table 5. Indexing the economy as a whole to 100, Japan's primary sector looks very inefficient at 42, while manufacturing is above average at 123 and the tertiary sector close to average at 101. In the United States, the tertiary sector is also close to the average producing level of the whole economy at 97, but so is manufacturing at 98, while the primary sector is above average at 124. These figures should not be regarded as very precise, however, since the output of some service industries is notoriously difficult to measure and may be at variance with the method of collecting employment data.

Although Japan's tertiary sector is a smaller part of its economy than is the case in the United States (Japan is approximately comparable in structure to the United States in 1960), it does seem to be converging with the United States. The relative shares of the three sectors in the United States have shown little change in the 1970s; the tertiary sector was 69.9 percent of total GNP in 1970, only slightly below 1980's 71.0 percent. If the United States has passed through a transition phase and maintains its present structure for some time, and assuming the shift toward services continues in Japan, the gap may continue to close.

Part of the shift toward the service sector in Japan during the 1970s was a result of the prolonged recession following the 1973 oil shock and the permanent slowdown in the overall growth of the Japanese economy. With a dip in demand for labor in manufacturing (where employment dropped 7 percent from 1973 to 1978), occupations in the tertiary sector became more attractive. For example, there was a considerable rise in the number of small retail shops during this period. To the extent that the 1970s were a response to the special economic conditions of the decade, the shift to services could slow down in the 1980s, although other studies suggest continued change.

In a study published by the Ministry of International Trade and Industry, Vision of Industrial Policy in the 1980s (in Japanese), employment in the tertiary sector is forecast to increase to 67.6 percent by 1990.[2] This represents a continuing shift, but at a much slower pace than in the previous decade. Other, somewhat earlier surveys anticipated a similar adjustment in the next 10 to 20 years.[3] It does seem likely that just as in other countries, more leisure time, higher real incomes and a change in the age structure of the population will continue to expand the tertiary sector's share of total employment and output.

A Microeconomic View

The different industries within the service sector have little in common. Tables 3 and 4 provide some breakdown of output and employment by these major diverse categories in a comparative framework for Japan and the United States. Table 3 shows that many of the industries have roughly the same share of total economic activity in both countries. The differences are relatively small and are most noticeable in the areas of construction (9.1 percent in Japan and 4.6 percent in the United States), wholesale/retail (12.4 percent in Japan, 16.1 percent in the United States), and government services (8.7 percent in Japan and 11.5 percent in the United States).

Table 4 provides a similar industry division for employment, which again shows some differences between the two countries. The United States has a higher proportion of employment in finance/insurance/real estate, government services, and "other", while Japan has a higher proportion in construction and the wholesale/retail industries. The result offers a rather different picture of industry productivity in the two countries. Table 5 gives GNP share/employment for the various industries. In general, the cross-national pattern of more and less productive industries is similar; service industries that are more (less) productive than the average for the economy are the same in Japan and the United States. However, the relative degrees of productivity are different; compared to the economy as a whole, the U.S. distribution industry (wholesale and retail trade) is less inefficient than Japan's, while construction and "other" services are less efficient in the United States.

Even the categories provided in Tables 3, 4 and 5 are rather broad. Table 6 provides a more detailed taxonomy of the tertiary sector, indicating some of the different activities that fall under each category. As can be seen from the list, not only is there a wide variance in output, but some industries are characterized as not-for-profit organizations (much of education, government services, postal services and hospitals). This presents obvious problems in measuring their output or understanding their motives and operational dynamics. A more important consideration is that government policy toward these industries is under the aegis of a number of government ministries and agencies. In those cases where a policy-making role vis-a-vis an industry is discernible, Table 6 lists the relevant ministries. This situation stands in direct contrast to manufacturing, where most (but not quite all) industries fall under the jurisdiction of MITI.[4] To the extent that Americans are familiar with the Japanese bureaucracy, their impressions are often formed by MITI, whereas other ministries have quite different goals, attitudes, procedures, and degrees of influence regarding the industries under their jurisdiction.

One implication of this divergence of goals is that the kind of consensus on growth policies that characterized manufacturing in the 1950s and 1960s has not been common in many other industries. In the distribution sector, for example, there has been a conscious policy of protecting small shops from the inroads of large department stores or discount operations. In transportation, policies have often favored specific industries, but frequently coordination has been lacking to the extent that policies to assist one mode of transportation have conflicted with the goals for others (such as the simultaneous construction of parallel expressway and high-speed rail lines). In other cases, part or all of an industry is subject to the control of government-owned corporations (including rail transportation, postal services and airlines), a situation almost nonexistent in manufacturing (with the exception of cigarettes). With less coordination, the division of policy among many ministries, and the political pressures to protect small firms, a further shift toward the tertiary sector could imply a slowdown of productivity growth in the Japanese economy.

The Trade Connection

Japan has had consistently mounting deficits in services trade both globally and with the United States. If one subtracts investment income and fees and royalties from total services trade, the adjustment makes a considerable difference for the United States. In Japan, though, it works in the opposite direction, since Japan has a small net deficit on investment income and a larger deficit on royalties and fees. For 1981, adjustment for these items reduces Japan's services trade deficit from \$13.6 billion to \$11.6 billion. In fact, Japan runs a deficit in every category of services except revenue from international freight transportation.

Involvement in international trade also varies widely by service industry, and for many trade is nonexistent, as indicated in Table 6. There is no way for industries such as rail transportation, highway transportation, electric power, gas, water supply, retail sales or most government services to have any involvement in trade except through the presence of foreigners living or traveling in Japan. Some areas only generate small services receipts, including education (relatively few foreigners study in Japan), legal services (where strong barriers exist in many countries — including Japan), or accounting and management consulting.

Since often it is the purchaser and not the service that moves across national boundaries, even when barriers to entry limit the access of foreign companies, considerable trade can still take place since the purchasers of services do the traveling. One example is legal services, where despite barriers to entry, trade takes place when American companies in Japan use Japanese law firms and vice versa. This by no means negates the fact that the flow of services trade in both directions would be considerably larger in the absence of barriers to entry. In some cases, these barriers in Japan have become the subject of bilateral discussion or negotiation. In other cases, where trade and investment are permitted with little restriction, American companies have been very successful, as, for example, in the fast food industry. The problems that exist and the forms of trade that occur have been examined in previous JEI Reports dealing with specific service sector industries.

Conclusion

Even though the shift in structure away from manufacturing and toward services appears to represent a more advanced level of economic development, there is concern in both countries that in fact, many service industries (such as construction and distribution) are relatively inefficient. This implies that the shift may imply slower productivity growth for the economy as a whole. For Japan the problems are also seen in the context of policy making by relevant government ministries, whose varying goals and demands include in some cases strong political pressure to protect small, inefficient firms.

On the international side, Japan has consistently run deficits in its services trade, even if the data are adjusted to eliminate services trade that does not represent service industries. These deficits stand in great contrast to Japan's large surpluses in merchandise trade. Even if government policy is conceded to have been a factor in the success of Japanese manufacturing exports, the policy difficulties in the service sector may imply that Japan will not be able to duplicate that success.

Since the service orientation of the Japanese economy is expected to increase, and with it the potential for trade in certain service industries, the creation of a GATT framework is highly desirable. The lengthy, bitter dispute over bilateral commercial airline services and the potential friction over restrictions on legal practitioners stems in part from diverse industry structures and different intellectual assumptions about the nature of these industries. Neither country is necessarily wrong, but some international framework to assist in finding a common ground on which to agree is desirable.

Footnotes

[1] Kazuo Nukazawa, "Japan's Emerging Service Economy and the International Implications," pp. 43-47, suggests that even manufacturing investment income could be included as a legitimate service flow on the grounds that foreign direct investment represents primarily a transfer of management skills.

[2] Ministry of International Trade and Industry, 80 Nendai no Tsusan Seisaku Vision (Vision of Industrial Policy in the 1980s), p. 348.

[3] Nukazawa, pp. 12-18.

[4] The exceptions in manufacturing include shipbuilding (Ministry of Transportation) and pharmaceuticals (Ministry of Health and Welfare).

For further information, contact Edward Lincoln.

* * * * * *

Table 1

Gross Domestic Product by Sector

	Primary	Secondary	Tertiary
1970	6.8%	35.8%	57.2%
1975	6.0	29.9	64.1
1980	4.4	30.3	65.4

Note: Prior to 1970, the sectoral breakdown in Japanese statistics was done by net national product rather than gross domestic product, precluding a direct comparison.

Source: Prime Minister's Office, Japan Statistical Yearbook

Table 2

Employment by Sector

	Primary	Secondary	Tertiary
1960	33.8%	21.9%	44.3%
1965	25.3	24.6	50.1
1970	20.0	26.7	53.2
1975	15.6	25.6	58.9
1980	10.9	23.7	65.4

Source: Prime Minister's Office, Japan Statistical Yearbook

Table 3

Comparison of Japan and the United States: Output by Industry - 1980

	Japan (shares in GDP)	U.S. (shares in GNP)
Primary	4.4%	6.5%
Secondary	30.3	22.5
Tertiary	65.4	71.0
Construction	9.1	4.6
Utilities[1]	2.9	2.6
Wholesale/Retail	12.4	16.1
Finance/Insurance	15.8	14.9
Transportation/Communication/Real Estate	6.9	6.3
Government Services	8.7	11.5
Other	13.8	13.1
Rest of World[2]	-4.2	1.8

Notes: [1] Electricity, gas and water supply.

[2] Import duties minus service charges on imports, plus statistical discrepancy. For the United States, the figure includes net factor income from abroad since the total is GNP and not GDP, but the impact is very small.

Sources: U.S. Department of Commerce, Statistical Abstract of the United States and Prime Minister's Office, Japan Statistical Yearbook.

Table 4

Comparison of Japan and the United States: Employment by Sector 1980

	Japan	U.S.
Primary	10.6%	4.5%
Secondary	24.7	22.2
Tertiary	64.7	73.3
Construction	9.9	6.2
Utilities*	6.9	6.6
Wholesale/Retail	22.5	20.2
Finance/Insurance/Real Estate	3.5	6.0
Government Services	3.6	5.4
Other	18.1	28.8

*Includes transportation and communication in addition to electricity, gas and water.

Source: Same as Table 3.

Table 5

Implicit Productivity: Value Added per Worker by Sector in Japan and the U.S. 1980

	Japan	U.S.
Total GNP (or GDP)	100	100
Primary	42	124
Secondary	123	97
Tertiary	101	97
Construction	92	73
Utilities*	142	135
Wholesale/Retail	55	80
Finance/Insurance/Real Estate	451	248
Government Services	241	213
Other	76	45

*Includes transportation and communication in addition to electricity, gas and water.

Source: Same as Table 3.

Table 6
Japan's Service Sector in Greater Detail

	Relevant Ministry	Involvement in International Trade?
Construction	MOC	yes (plant exports)
Utilities		
Electric Power	MITI	no
Gas	MITI	no
Water/Sewer	local	no
Distribution		
Wholesale	MITI	yes (trading companies)
Retail	MITI	no
Finance		
Banking	MOF, MPT*	yes
Insurance	MOF	yes
Securities	MOF	yes
Real Estate	MOC, NLA	yes (but minor)
Transportation		
Rail	MOT	no
Highway (truck/bus/taxi)	MOT	no
Air (domestic/international)	MOT	yes
Ocean (coastal/international)	MOT	yes
Communications		
Newspapers/Magazines/Books	-	yes (imports, few exports)
Telephone/Telegraph	MPT	yes
Television/Radio/Movies	MPT	yes (imports, few exports)
Postal Services	MPT	yes (but no competition)
Advertising	-	yes
Government Services		
Police	NPA	no
Fire	FDA	no
Administration	all	no
Other Business Services		
Engineering/Architecture	MOC	yes
Accounting/Auditing	MOF	yes (mostly imports)
Management Consulting/Forecasting	MOL	yes (mostly imports)
Legal Services	MOJ	yes
Other (cleaning, etc.)	-	no
Other Personal Services		
Recreation/Sports	MITI/MOE	no
Hotels/Restaurants	MHW	no (except through tourism)
Tourism	MOT	yes
Medical Care	MHW	no
Education	MOE	yes (imports, minor exports)
Other (haircuts, etc.)	-	no

Note: The abbreviations are:

MOC=Ministry of Construction
MOT=Ministry of Transportation
MOF=Ministry of Finance
MHW=Ministry of Health and Welfare
NPA=National Police Agency
MPT=Ministry of Posts and Telecommunications

FDA=Fire Defense Agency
MOE=Ministry of Education
NLA=National Land Agency
MOJ=Ministry of Justice
MITI=Ministry of International Trade and Industry

*MPT oversees the Postal Savings System.

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USTR Releases Inventory of Japanese Market-Access Barriers

Greater access to the Japanese market has been the cornerstone of the Reagan adminstration's Japan policy since shortly after the inauguration. Only last week, however, did U.S. trade policymakers publicly identify the full array of Japanese regulations, practices and procedures that they feel limit the inflow of goods, services and investment from the United States, whether by design or unintentionally. The list, prepared for Congress by the Office of the United States Trade Representative (USTR), includes a by now familar inventory of barriers that result from Japanese government import policies: high tariffs on wood products, tobacco products and a number of other products of significant interest to U.S. exporters; quantitative import restrictions on 27 groups of commodities or products, especially beef, citrus and leather, and the lack of transparency in administering these quotas; informal controls on imports of petroleum products, naphtha and feed grains and tariff quotas for several agricultural commodities; and time-consuming customs-clearance procedures, particularly the need to obtain import approval from other Japanese government agencies before Customs can start its clearance process. The list also contains the well-documented impediments to trade created by Japan's restrictive standards and approval procedures as well as the buy-Japanese procurement policies of certain government agencies, and the problems created by state trading in tobacco products, food grains and data-processing and telecommunications services.

What differentiates USTR's catalog of government-created barriers from other listings, including that by the Japan Economic Institute (see JEI Report No. 5A, February 5, 1982), is that it explores the impact of Japanese government regulatory and industrial policies on trade in goods and services and investment. In the regulatory area, USTR identifies cartels or cartel-like behavior as one possible obstacle to the free flow of trade and investment, but admits that the affect of these activities on imports is probably limited. It also finds that foreign securities firms and commercial banks are now treated like domestic institutions in Japanese regulations. Where regulatory actions do affect market access, the report states, is in the area of licensing American insurance firms to do business in Japan ("an unnecessarily lengthy and complex process") and in the field of foreign investment ("very little transparency to the investment screening process"). USTR points out in addition that the ability of foreign borrowers to obtain yen financing in the Japanese market, both through the commercial banking system and the bond market, is limited because of administrative controls.

Perhaps the most interesting part of the report is the discussion of the consequences of Japanese industrial policy on trade and investment. The trade policy panel readily acknowledges that the policy tools adopted by Japan's government to foster the growth of strategically important industries are not devised specifically to restrict or exclude foreign participation in the Japanese market, but it argues that limited market access is often the practical result. Singled out for particular attention in this regard is the potential multiplier effect of the combination of industry targeting, government-sponsored cooperative research and development programs, and administrative guidance.

Also of interest is the inventory of private-sector barriers to trade. Here the report goes beyond the often-cited obstacles inherent in the buy-national attitude of large numbers of Japanese importers, distributors and end users and the complex Japanese distribution system to address the several ways in which conglomerate groupings of firms (keiretsu) effectively act as brakes on the free flow of goods and services into Japan.

The tone of the report is moderate throughout, and the Japanese government is given credit where due for taking steps to facilitate market access for foreign goods, services and investment. In releasing the catalog of Japanese barriers, however, Deputy United States Trade Representative David Macdonald charged that the Japanese government had not lived up to its commitments to liberalize access to the economy. "Neither the letter not the spirit of the May 28 liberalization measures has been accomplished," stated the exasperated trade negotiator. The constituency for free trade has almost totally eroded in the United States, Mr. Macdonald warned, adding that it can only be rebuilt if the Japanese government moves quickly on the market-access front. "Whether it realizes it or not, the government of Japan is in a race against time."

Susan MacKnight

U.S.-Japan Form Strategic Metals Symposium

U.S. and Japanese participants attended a Tokyo symposium on strategic metals November 8 - 9, the first such meeting of its kind. On the agenda was the subject of bilateral cooperation in securing stable supplies of these resources, which are critical to industrial development and the strength of the Western economies. In attendance at this privately-sponsored conference were Yoshihiro Inayama, chairman of Keidanren, Toru Toyoshima, Director General of the Natural Resources and Energy Agency, William Schneider, Undersecretary of State for Security Assistance, Science, and Technology, Gaston Sigur of the National Security Council, and various representatives from private-sector companies.

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According to Japanese press accounts, Mr. Toyoshima stressed that the two allies should, both for economic and national security purposes, coordinate their procurement of strategic metals such as nickel and cobalt, since together they consume approximately half of the world's supply. In view of the fact that these resources are produced primarily in Eastern Bloc countries, as well as South Africa and Zaire, there is some question as to the stability of supply. Concern therefore has arisen with regard to the establishment of a supply system that can cope with emergencies.

Mr. Schneider, the key U.S. speaker, echoed the same observations. The 1973 oil crisis highlighted the West's vulnerability in this area, and our need for a strategic metal reserve to guard against potential supply interruptions is essential, he later told JEI. Last year, Washington channeled additional monies into fortifying its stockpile, and is encouraging a similar policy among its allies. Energy and natural-resource officials in France and the United Kingdom are said to be interested in this concept as well. The U.S. plan includes 93 strategic items, totaling approximately $12 billion. (In comparison, the Japanese plan includes some 10-12 items, totaling approximately $50 million). Washington would like to obtain within the next five years a three-year stockpile of strategic metals. To illustrate how both countries could cooperate in this endeavor, the Undersecretary explained that the United States could sell some of its surplus metals to Japan, and vice versa, to avoid disruptions in the marketplace.

Barbara Wanner

Depressed Industry Legislation Under Review in Japan

In 1978, Japan passed a law to assist what it described as structurally depressed industries. That law provided a variety of measures, including coordinated cutbacks in production capacity, low-cost loans to facilitate the cutbacks, and legal cartels. Eventually 14 industries cut back production capacity under the law, although not all of them used the financial assistance or formed cartels. Nor, it seems, did all of them overcome their problems; the law is due to expire next June and a replacement is now under discussion that would be aimed directly at several industries covered by the first law.

The Ministry of International Trade and Industry (MITI) has under consideration a proposal for legislation to be submitted to the Diet next spring which would provide assistance to the following eight industries: aluminum smelting, petrochemicals, fertilizer, polyvinyl chloride, open-hearth and electric furnace steel, synthetic textiles, and paper and pulp. Within these broad categories, various arms of these industries had previously attempted to re-structure under the first law, and some were involved in legalized cartels even before 1978.

Measures in the draft proposal include restrictions in productive capacity (to replace the expiring cutbacks), plus a special depreciation fund and government credits to finance the cutbacks. In addition, the intention is to comply with a concept recognized by the OECD called "positive adjustment policy", which says that aid to declining or depressed industries is acceptable if it is aimed at eliminating uncompetitive operations and fostering only those parts of an industry that can be viable in the marketplace. Thus, the draft includes promotion of technical change through larger research and development subsidies, and calls for rationalization cartels to facilitate the joint purchase of raw materials or establishment of joint production ventures.

This proposal is already controversial. The Japan Fair Trade Commission (JFTC) has come out against it, releasing a report which argues that cartels, administrative guidance, and other forms of government involvement have been ineffective in helping structurally depressed industries. The real adjustment, it claims, has been enforced by the market place. Administered reductions in capacity allow inefficient producers to continue to exist because of "fairness" principles, which only delay real adjustments, JFTC said. Certainly the fact that the industries involved were earlier recipients of assistance under the first law lends weight to this argument.

Aid to depressed industries also has an international angle, and the JFTC is worried that the flexible use of antitrust policy, through sanctioned rationalization cartels, will raise international suspicions. This seems quite likely, since the United States has recently charged that cartels in Japan hinder imports. It is not clear whether international and domestic pressures will force a policy change, but the question of structurally depressed industries is expected to dominate industrial policy discussions in Japan next year.

Edward Lincoln

Competition in Japan's Consumer Credit Market

Japanese consumers borrowed a whopping ¥2.5 trillion ($9 billion) in 1982, a record 35.7 percent gain over the previous year, as the result of ¥17.5 billion (approximately $65 billion) in new extensions of consumer credit. Attracted by the rapid growth of this market, new entrants are moving into the field. Sixty-three regional banks now offer a consolidated bank credit card, in competition with the familiar bank-affiliated card companies. The new card can also be used at cash dispensers and allows holders to borrow money without collateral, in contrast to the more limited shopping function available with the existing credit cards.

Nokyo, the farmer's cooperative, has also announced that it intends to enter the consumer credit market. It plans to offer credit-card services to its eight million members by April of next year. Nokyo has arranged a tie-up with credit card companies affiliated with Mastercard, so that its holders can use their cards overseas. Intensified competition has also prompted the shinpan (credit associations offering a retail shopping card) to boost their membership to 10,450,000, up 38.0 percent over a year earlier and nearly as high as the number of bank-affiliated credit card holders.

Sluggish industrial production and weak corporate demand for capital are restricting the usual lending activities of the banks, which see the consumer loan market as a profitable arm of expansion. Private financial institutions such as banks, security companies and insurance firms have also entered the consumer market indirectly through the provision of capital to consumer loan companies. This rapid increase, warns the Bank of Japan, could endanger the soundness of the banking system. For one thing, there are glaring deficiencies in the credit information system, making it likely that the number of defaults will increase. In a relatively small market compared to the United States, which has five major credit cards, there are already 13 credit cards issued by bank-affiliated companies and the shinpan. A move toward consolidation would simplify the market for card issuers and clients.

Yoshio Nakamura

Profits Decline for Japan's Trust Banks

City banks in Japan have reported a decline in profits estimated by private financial institutions at 16 percent for the first half of FY 1982 (April to September). This trend reflects the competitive edge in acquiring deposits gained by the trust banks and the long-term credit banks as a result of new offerings of tax-exempt certificates and tax-exempt bank debentures. And owing to the Bank of Japan's manipulation of interest rates in the call market designed to halt any further depreciation of the yen, the city banks have had to borrow short-term funds at higher rates. Even at the higher rates, though, the trust banks and long-term credit banks lending in the call market are losing money.

The trust banks raise long-term funds by issuing "loan trusts" — savings certificates of medium-term maturity. The long-term credit banks' funding is through debentures bought primarily by the commercial banks. Both provide funds on a long-term basis to finance the capital spending and long-term equipment requirements of the manufacturing and construction industries. These trust banks and long-term credit banks, whose new deposits are called "Big" or "Wide" to convey the higher yield offered by optimum use of the tax exemption, are also suffering from reduced profits of 21.8 percent for the trust banks and 16.6 percent in the case of the long-term credit banks.

The Bank of Japan's deposit statistics show an increase in total individual bank deposits during the April to June period of only 1.1 percent over the same period of the previous year. However, deposits in trust banks increased by 41.4 percent, while deposits in city banks declined by 26.5 percent. In September, when interest rates on loan trusts were raised by 0.5 percent, interest-sensitive depositors fled the city banks and the increase in trust bank deposits shot up to ¥2,960 billion (aproximately $10.7 billion), 22.1 percent above year-earlier levels.

Although funds from these long-term deposits (usually five years) are generally allocated to finance long-term capital spending, such loans declined by 17.8 percent in the first half of the fiscal year and were only 14.8 percent of the total amount of funds raised in the period. These financial institutions were therefore forced to either purchase bonds, provide funds to the short-term call market, or make short-term loans available, which in fact did increase by 37.0 percent. But because interest rates for short-term loans or call money are below current interest rates paid on trust certificates, these institutions are losing money on this part of their operations, hurting their overall profit position. With less demand for credit, this group of trust banks is growing less eager to lure new deposits.

Yoshio Nakamura

EPA Report on Japan in the 21st Century Generates Lively Discussion

A committee sponsored by the Economic Planning Agency has reported on Japan in the 21st century, stimulating debate about the country's future prospects in areas ranging from economic growth and high technology to social values. This is the second report commissioned by the agency (the first was published 20 years ago), and stands in sharp contrast to that study, which anticipated the high economic growth period. The agency predicted that Japan will emerge as an aging society in the 21st century, that economic growth will be a moderate 4 percent, and that economic and social trends will grow to resemble those in Europe and the United States.

One priority for the task force was to define what it termed the "internationalization" of Japan, based on the nation's degree of industrial power and its increasing economic and political status. Because the effort to transform the country from a passive to a leadership role would be painful, Japan's strategy, according to the report, should focus on revitalization of the world economy according to free-trade principles. In this global drive, Japan would seek economic growth by stimulating domestic demand and increasing technological cooperation and direct overseas investment. It suggests further liberalization of the domestic market, while at the same time ameliorating the problems of declining domestic industries wounded by foreign competition. The report calls on academic institutions to integrate foreign faculty members and students, emphasize Japan's expanding international role, and concentrate more on students returning from abroad. Japan should also be active in North-South issues and increase the amount of economic assistance by both the private and public sector.

The writers emphasize the importance of the vitality of the social system and the question of human resources. For example, the role of government should not be too large, the report warns, since that tends to discourage the private sector, increase taxes, distort the distribution of wealth, and lower productivity in the public sector. It notes, however, that compared with other industrially advanced countries, Japan has a relatively small government. The ratio of government expenditure against GNP in Japan was 31.8 percent in 1979, compared with the United States (33.5 percent), the United Kingdom (43.1 percent), West Germany (44.3 percent) and France (44.9 percent). However, the report warns that in recent years, the situation has been changing rapidly, pushing up government expenditures to a point which might cause problems similar to the ones faced by the United States and Europe.

Structurally, the report predicts the evolution of the economy, projecting a small but modern and productive agricultural sector, a vigorous manufacturing position, expanding service industries and new, high-technology leadership in industries such as life science. On the other hand, the heavy equipment industry will be forced to seek competitive technology and the auto makers, while remaining a major component, will experience less explosive growth. Such changes were held to be the usual course of any country as it progresses. Recognizing that the newly developed countries will go through the same process, the report reflects the difficulties involved in moving into a high-technology era without damaging those sectors which are caught in between.

While such long-term forecasts might be considered merely intellectual exercise, Japanese policy makers are inclined to welcome such activity. Since it involves different sectors, the analysis serves as a sounding board to stimulate wider discussion by the press. And while the effects are not visible, it may well make a significant contribution because the coverage often serves as a catalyst for a more general consensus. The Economic Planning Agency does not usually attempt to influence acceptance of the conclusions of the reports, but remains in the background, as do all other ministries, reviewing and analyzing the material in individual committee meetings.

Fumiko Mori

Foreign Ministry Gives Aid Projects Mixed Reviews

Last month the Foreign Ministry completed its first evaluation of Japan's foreign economic assistance program and generally awarded it high marks. In the case of programs to some of the poorest countries, such as Bangladesh and Nepal, however, it recommended some "self reflection", since the aid provided evidently did not complement the technical capacities or local manners and customs of the recipient countries. Of the 99 cases under review, the ministry concluded that the results achieved in transportation facilities, communication improvements, medical and educational facitities were effective in enhancing the economies of the targeted countries.

Not long after Tokyo embarked on its plan to double funds for official development assistance (ODA) during the next five years, the Foreign Ministry undertook an evaluation to determine whether the development aid was achieving desired results. This first report was based on field surveys undertaken by officials in the various recipient countries. According to Nihon Keizai Shimbun, the surveys covered 20 countries, including Thailand, Malaysia, Indonesia, Bangladesh, Egypt and Mexico, and included 22 yen-funded projects, 26 grant programs, and 38 projects involving technological cooperation. The report showed good progress in a communications training center in Thailand and a hospital in

Sri Lanka, but faulted Tokyo for insufficient knowlege of conditions in the poorest countries, which would have improved the quality of assistance to more adequately meet the recipient's actual needs.

Tentative plans are underway for another round of high-level aid discussions between the United States and Japan in January 1983. There are indications that U.S. officials are concerned that the continued depreciation of the yen, compounded by the government's budget-cutting drive, may inhibit Tokyo's attainment of its aid target. Washington has supported an expanded Japanese aid program not only in the interests of security, but also to help stretch free-world aid monies to less-developed countries in Asia, Africa, the Middle East and Latin America during a time of fiscal austerity.

Barbara Wanner

IEA Releases Long-Term World Energy Outlook

Looking forward to the year 2000, a long-term energy analysis published by the International Energy Agency (IEA) forecasts that a tight oil market may not be far off. The study predicts an end to the current oversupply by the late 1980s. Rising energy demands will reduce available supplies as increased energy consumption by OPEC members and other developing nations and declining oil production in North America, the North Sea and the Soviet Union put a crimp in shipments of this vital natural resource. The OPEC nations' production is itself expected to decline slightly.

On the other hand, the OECD countries will gradually increase their energy requirements until 1985, after which the pace in consumption will accelerate. The world oil supply, excluding the communist countries, will reach 50 million barrels per day (BPD), to a maximum in the 1990s of 53 million BPD. While OPEC will maintain oil production at 28 million BPD by 1990 (about half of the total supply), production within the OECD countries (15 million BPD at present) will decline from the mid- 1980s. OECD will continue to import 21 million BPD throughout the 1980s. To date, the most promising alternative resource is coal, and if the present price advantage is maintained, its share of demand in the OECD countries will jump from 21 percent to 30 percent by the year 2000. Similarly, natural gas, nuclear energy and hydroelectric power will also increase their shares.

The IEA report warns that declines in oil prices due to the glut might send misleading signals to both consumers and investors. Should this delay the pace of developing alternative energy, the costs will be very high, it notes. On the other hand, the OECD countries as a group have succeeded in reducing their rates of energy and oil consumption — by 8 percent in 1980 and another 7 percent in 1981. As a result, OECD oil consumption declined by 6 million barrels per day between 1979 and 1981. The IEA analysis did not, however, suggest that energy policies were responsible for the decline, by rather that the cutbacks were achieved by a drawdown of stockpiles, auspicious weather conditions, and weak economic growth -- the main reason that demand for oil was so modest.

As for the future, the outlook emphasized the importance of the market mechanism and the need to proceed with alternative energy development. IEA's gloomy view of the oil market and concern that the slow pace of alterative energy development might not meet future needs parallels the concerns of Japanese policy makers. Last April the government revised its long-term energy projection to reduce oil dependence from 1980's 66 percent of total energy demands to 38 percent by the year 2000, and to increase the use of coal to 19 percent (from 16.7 percent), nuclear energy (from 5 percent to 18 percent), and natural gas (from 6 percent to 11 percent).

The country should not be deceived by the present oil glut, says the former Director General of the Natural Resources and Energy Agency. The government would like to encourage the domestic oil industry to move forward into technological developments in energy that have potential commercial applications, although the flat sales projected for the future are a serious disincentive.

Fumiko Mori

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1980	1981	January-September 1981	January-September 1982	July 1982	August 1982	September 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$ 14,282	$ 13,490*	$ 2,329*	$ 984*	$ 2,426*
Exports (f.o.b.)	126,736	149,522	110,400	104,186*	11,921*	10,405*	11,650*
Imports (f.o.b.)	124,611	129,555	96,118	90,696*	9,592*	9,421*	9,224*
Current Account Balance	-10,746	4,770	2,910	4,514*	1,411*	-30*	1,463*
Long-Term Capital (net)	2,394	-6,449	-4,330	-15,035*	-1,959*	-2,286*	-416
Overall Balance	-8,396	-2,144	-771	-6,744	-499	-397	823
International Reserves (end of period)	25,232	28,403	27,980	24,009	25,669	24,416	24,009
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	5,292	4,720*	1,279	-40	1,557*
Exports (f.o.b.)	129,807	152,030	112,314	105,106*	11,958	10,421	11,623*
Cars	16,115	18,445	13,933	13,600*	1,558	1,266	1,453*
Steel	15,454	16,669	12,077	12,287*	1,361	1,218	1,235*
Imports (c.i.f.)	140,528	143,290	107,022	100,386*	10,679	10,461	10,066*
Crude Oil	52,763	53,343	40,488	34,630*	3,385	3,560	3,327*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	9,172	9,175*	1,106	693	1,290*
Exports (f.o.b.)	31,367	38,609	27,935	27,706*	3,232	2,704	3,197*
Imports (c.i.f.)	24,408	25,297	18,763	18,531*	2,126	2,011	1,907*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥257.50	¥261.70	¥269.50
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-11,626	-13,744	-1,112	-2,082	-1,336
Exports (f.a.s.)	20,790	21,823	15,959	15,544	1,777	1,732	1,568
Industrial Supplies	9,501	8,983	6,417	6,765	674	733	624
Food and Feed	5,393	5,896	4,512	3,745	429	500	434
Capital Goods	4,340	4,767	3,481	3,314	489	314	337
Consumer Goods	1,154	1,318	996	1,030	117	114	111
Imports (f.a.s.)	30,701	37,612	27,585	29,289	2,888	3,814	2,905
Automotive Products	11,436	12,950	9,763	9,934	1,087	1,266	920
Industrial Supplies	5,926	7,179	5,233	5,608	529	689	503
Consumer Goods	6,198	8,340	6,025	5,953	526	819	648
Capital Goods	6,555	8,589	6,181	7,242	701	983	783

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-August 1981	January-August 1982	June 1982	July 1982	August 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	8.1%	9.7%	8.8%	9.3%	9.0%
Industrial Production	7.0%	3.1%	1.8%	2.2%	1.3%	1.1%	1.5%
Manufacturing Operating Rate	0.7%	-4.6%	-6.1%	-1.9%	-2.9%	-3.3%	-2.9%
Number of Bankruptcies	11.6%	-1.5%	0.9%	-3.2%	-1.2%	-3.4%	-3.5%
Residential Construction Starts	-15.0%	-9.2%	-11.1%	-4.9%	-1.9%	7.8%	5.0%
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.62	0.58	0.58	0.58
Nominal Wages	6.3%	5.3%	5.2%	5.1%	3.5%	4.7%	8.0%
Labor Productivity	9.1%	3.5%	2.5%†	2.5%†	2.3%	n.a.	n.a.
Wholesale Prices	17.8%	1.7%	1.9%	1.9%	1.1%	1.3%	1.0%
Consumer Prices	8.0%	4.9%	5.4%	2.7%	2.2%	1.7%	3.1%
Yen-Based Export Prices	9.3%	1.9%	0.2%	4.5%	3.2%	1.8%	0.5%
Yen-Based Import Prices	43.0%	3.0%	1.1%	7.3%	5.2%	5.7%	6.0%

†Through June of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 17, 1982.

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JEI REPORT JEI JAPAN ECONOMIC INSTITUTE

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JAPAN'S RESIDENTIAL CONSTRUCTION SITUATION

Summary

Housing investment is indispensible to achieving balanced economic growth that is less dependent on public expenditures and exports. Housing construction, which grew rapidly until the first oil crisis, has been slowing as the economy grinds down. The government in response has relaxed loan conditions and re-structured the tax rates on houses and land to try to stimulate new construction to boost the depressed housing industry. Any increase in consumer spending on housing, though, will also depend on the government's ability to enhance the purchasing power of households by holding down high land prices and increasing real disposable income. While a recent housing survey shows that potential demand for new and restored residential housing is strong, the housing industry, in addition to the government actions just mentioned, will have to respond to a changing demographic market if it is to recover.

Introduction

With its policy options constrained by huge budget deficits and deepening trade conflicts, Japan had hoped for a recovery of domestic demand to spur its lagging economy. The government of Prime Minister Zenko Suzuki, which had forecast that the economy would grow by 5.2 percent in the current fiscal year (ending next March), was counting on an increase in consumer spending, especially in residential housing, to contribute to that target. Its goal of 1.3 million housing starts for FY 1982 was 13.7-percent higher than the number achieved in the previous year. However, figures released in September by the Ministry of Construction were disappointingly low, a mere 6.9-percent higher than the same month of the previous year. Thus far, housing starts for the first half of FY 1982 (April to September) amount to 607,000, 3.7-percent below FY 1981's level and are expected to reach 1.14 million for the full year, substantially below the government's original goal.

Thus, when the government revised its economic growth forecast from 5.2 percent to 3.4 percent, the sharpest cut was the reduction in the projected growth of housing investment from 10.4 percent to 2.7 percent. Questions now being raised about housing investment, which continues to stagnate despite government expectations, indicate that there is a growing conviction that structural changes have occurred recently that affect demand for housing.

The Importance of Housing Investment

Housing demand has played an important role in Japan's economic growth. The ratio of residential construction to gross national product (GNP) rose from 5.7 percent in 1965 to 8.4 percent in 1973, and thereafter has held at around 6-to-7 percent. When related components are added in, including interior furnishings, appliances, gardens, maintenance and repair costs and resale of older homes, the Ministry of International Trade and Industry (MITI) estimates that in FY 1980 total demand was about 12 percent of GNP.

A very high priority should be placed on housing investment since its substantial share of GNP could take up the slack in the economy, since further expansion of exports is precluded by threatened protectionism and public spending is prevented by high budget deficits. Moreover, when the balance between savings and investment is taken into account, the way in which Japan's high rate of personal savings is absorbed is a very important element in economic management. Since it is again not feasible to absorb the savings through an increase in trade surpluses and/or government expenditures, housing investment becomes even more important.

Finally, a growth in housing demand could also help ameliorate trade friction by reversing the recent decreases in log and lumber imports from the United States that have resulted from the depression in the Japanese housing market. U.S. exporters will also have to adapt future shipments to the changing demographic market.

Developments in Residential Housing

Before the first oil crisis, the housing stock grew by leaps and bounds, keeping pace with the country's rapid economic growth. Housing starts recorded a 9.8-percent average growth rate, rising from 0.9 million units in 1965 to a peak of 1.9 million units in 1973 (see Table 1). An insufficient number of residential dwellings, due not only to the war but also to urbanization in the postwar period, prompted a sharp increase in homebuilding. Because adequate replacements had been neglected, the resulting growth rate was striking. Until 1973, the number of single-family households showed the largest increase as the population flowed into the three major metropolitan areas — Tokyo, Osaka and Nagoya. These social and structural factors accelerated housing investment until by 1973, the number of dwellings per household amounted to 1.05.

With the country in a slump after the first oil crisis, housing starts dropped to 1.3 million units, down 28.5 percent over the previous year. There was some improvement beginning in 1975, with starts stabilizing at around 1.5 million units until 1979. But since 1980, annual construction starts have decreased sharply and were down to 1.1 million units in 1981. Further declines are expected in 1982.

Housing starts are likely to register even further declines as the rapid aging of Japan's population cuts into the growth rate of individual households and urban migration loses its momentum. In addition, the deflationary effect of the two oil crises and the rapid improvement in the housing stock must be taken into account. Clearly then, although the quantitative demand for housing might have been satisfied, a second question remains as to whether the quality of housing is adequate. Indications are that the answer is no. The average age of residential housing was 14.6 years in 1973, but slowed rates of growth have resulted in an aging of housing stock to 15.5 years in 1982, which will fall further to an estimated 16 years in 1983.

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The 1978 housing census (conducted every 5 years) reveals that 38.9 percent of households feel their current housing situation is inadequate. This figure is higher in Tokyo (42.2 percent) and Osaka (43.2 percent), where high land prices restrict the size of homes. Although the average floor space of a new house is 40 percent larger than older units, size is still the most common complaint registered by the respondents. According to the survey, more than 40 percent of the 19.3-million privately-owned homes and more than 80 percent of the 12.7 million tenant-occupied dwellings were below the average housing level.

Investment Problems

Inadequate Structures — Replacement of inadequate structures is one of the most pressing problems in Japan today. The 1978 survey places the average home's floor space at 80.3 square meters, although figures for residences in the Tokyo and Osaka areas are considerably less, 61.5 square meters and 68.3 square meters, respectively. Moreover, the ratio of below-average housing was 71.3 percent in Tokyo and 67.6 percent in Osaka, far above the 58.3-percent figure given for the country as a whole. In general, these figures are a function of the higher ratio of rented houses in metropolitan areas; 49.9 percent in Tokyo, compared with 39.4 percent elsewhere. Also, 85 percent of housing is built of wood, and as a consequence, is vulnerable to fire or earthquake damage.

Many of these low-quality homes were built at a time when population growth of the three big metropolitan areas was expanding rapidly. Rapid urbanization had brought industry as well, and by 1979 about 60 percent of Japan's largest corporations had headquarters in the Tokyo area. Tokyo also housed 37 percent of all university professors as well as 45 percent of all college students. In order to house this large population, traditional wooden single-family units were built, leading to suburban sprawl. This created many inadequacies in the infrastructure that were unable to be filled because of a shortage of local government financial resources. Since this situation has not improved, the redevelopment of these urban areas is necessary. For example, in the Tokyo metropolitan area where the shortage is most acute, the average size of a housing unit is well below the Japanese government's recommended capacity. It is clear that it is necessary to replace these dilapidated houses with high-rise apartment buildings and improve the infrastructure to conform with the density and sanitary requirements needed in large cities.

Land Problems — Residential land has steadily grown more expensive, particularly in urban areas. The National Land Agency (NLA) said that the increase in 1982 was 6 percent higher than a year earlier, slowing somewhat from the 7.2-percent rise in the preceding six months. This compares to a 3.2-percent rise in overall consumer prices for the period. Housing officials predict that prices will flatten out, but the declining supplies of residential land and the continuation of extremely high prices will not constitute a favorable environment for housing construction.

Another serious problem concerns the availability of residential land. One proposal now under discussion calls for the government to issue public bonds to buy land from private owners in metropolitan areas. The bond would be exchanged for land at current market value and could be traded in the open market. The purchased property would then be sold to local governments or private real estate developers, thus returning money to a special account to redeem the bonds while guaranteeing the owners the profits that they are reluctant to forego.

Purchasing Power Down — As Table 3 shows, the purchasing power of households is down. This decline is reflected in the reduced amount of land sold in the last decade. In the three big metropolitan areas, 19,500 acres changed hands in 1972, compared with only 9,000 acres in 1980. Since 1978, the price of an apartment has risen from 4.2 times to 5 times the average household's annual income, while the ratio for homes has gone up from 5.5 to 6.5. As prices have gone up, lenders have required larger down payments. At one time a borrower could finance 97.5 percent of the purchase of an apartment and 69.7 percent of a house, but current mortgages cover only 81.2 percent for apartments and 58.1 percent for houses. Assuming a 7-percent increase in annual income and a 6-percent hike in housing prices, the Mitsui Real Estate Development Co. predicts little improvement in the purchasing power of households.

Legal and Tax Issues — Most of the land that is zoned for residential use has been developed, making further expansion more difficult. However, private companies and speculators do hold possible residential land on which construction is currently restricted under various government programs pertaining to agricultural policy and local government administration. These tracts could be transferred to residential categories and developed to help solve the problems of the large urban population.

The current legislation on leased housing and land, which dates from 1921, is still another one of the principal causes of the housing shortage. Leases are renewed automatically, for example, if there is no compelling reason for cancellation on the owners part, or complaints by the tenants. But, in fact, it is so difficult to evict tenants that many houseowners leave property vacant rather than risk losing access to their homes. Construction of multi-family units for rental property is similarly constrained by these outdated leasing laws. A new legal framework for leases that encourage rather than discourage housing construction is badly needed.

Local governments contribute in other ways to the shortage by stipulating that private developers must provide a substantial percentage of the necessary infrastructure, amounting to as much as 40-to-60 percent of the total cost of the project. It also often takes more than two years to get approval for housing construction, which increases the price. In response to these difficulties, the Ministry of Construction and the Ministry of Home Affairs recently proposed relaxing these regulations.

Yet another part of the problem has to do with the tax treatment of real estate in Japan. For example, capital gains accrued from the sale of land have been subject to a high tax applicable to short-term gains. Under the 1982 tax reform law, profits from sales where the property has been held for more than 10 years will be taxed under provisions for long-term gains, which carries a lower tax rate. A second provision, designed to provide an incentive for owners of agricultural land to sell their holdings, increased the tax rate on agricultural land within urban areas to the same level as residential land. A loophole was included, though, that states a farmer who intends to use the land for agricultural purposes beyond ten years will be taxed according to the previous low rates. As a result, about 90 percent of the applicable agricultural land has been so registered — virtually eliminating any benefits from this part of intended reforms under this law.

Home Loans

Financing for homeowners is available from private financial institutions, which have displayed considerable interest in residential mortgages to offset the post-oil crisis decline in loan demand from the corporate sector. As a result, home loans rose from ¥2,658 million ($10 million) in 1968 to ¥8,514 million ($32 million) in 1973, an increase of 3.2 times. Home builders in Japan have also tied up with financial institutions to offer mortgage loans for new houses. This has spurred sales and increased home loan volumes. In recent years, financial institutions have established home financing companies, which has also facilitated home ownership.

After several years of growth in loans from private financial institutions, the share of these loans to the total balance of home loans has been declining in favor of lending from public corporations such as the Housing Loan Corp. (HLC). The HLC was established in 1950 to offer government-financed housing loans to supplement the loans of private financial institutions. Interest rates are below those available from the private mortgage market, and vary according to the size of the house. Currently, the HLC charges from 5.5 percent to 7.3 percent, rising after the eleventh year of repayment to 7.3 percent, while the bank rate is 8.46 percent. As the data in Table 4 shows, the HLC has been steadily increasing its share in housing investment and has served as an outlet for government-financed stimulus measures during economic downturns. With the sharp decline in construction recently, the HLC has raised the ceiling on loans and repairs, relaxed restrictions on the income levels of loan recipients, and made loans available for an additional 30,000 houses.

Outlook

The government now predicts 1.14 million housing starts in FY 1982, but the housing industry is more pessimistic, in part because of what it calls the excess inventory of new condominium apartments and homes. Because housing construction is correlated with the generally depressed economic conditions, the industry does not expect a prompt recovery. Whether housing investment will recover when the economy revives depends on several factors. First, the current slump is structural as well as cyclical, as noted earlier. Table 2 shows that the increase in the number of households has stabilized and may even decline in the future. A second consideration is that the influx of population into large cities has declined. These demographic factors are an indication that the demand for housing will continue to abate.

Still, counterbalancing the demographic trends, the government's housing survey shows 40 percent of all Japanese households are dissatisfied with their current housing situation and intend to either replace or alter their dwellings. Individual homeowners and renters want larger homes and a better residential environment. Meeting these criteria will mean enlarging the supply of available land for development and making efficient use of existing residential land. This will require a review of existing government controls and tax policies, as mentioned above. Residential repairs and improvement of older houses are areas of increasing significance because of the high cost of construction materials and land prices. The annual number of these projects will be boosted from 300,000 in 1981 to an estimated 600,000 by 1990. This activity should persuade the housing industry to emphasize this segment of the market. But even if all these conditions are met and the economy rebounds, it is unlikely that a housing boom as marked as that of 1972-73 will be generated because of structural changes in housing demand.

For further information, contact Yoshio Nakamura.

* * * * * *

Table 1: Residential Construction Starts by Funding Source

(units)

		Owner-Built		Developer-Built		Built for Sale by Housing Corporation	Private Rental		Public Rental	
Year	Total	Private Funds	Housing Loan Corporation	Private Funds	Housing Loan Corporation		Private Funds	Housing Loan Corporation	Local Governments	Housing Corporation
1970	1,484,556	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
1971	1,463,760	483,543	120,217	118,342	38,315	7,471	409,486	28,744	90,738	62,781
1972	1,807,581	547,137	127,212	205,797	34,799	5,710	559,231	29,627	121,160	80,546
1973	1,905,112	592,689	155,803	312,822	41,088	6,173	543,679	25,788	98,599	22,906
1974	1,316,100	483,255	189,355	176,093	43,781	9,663	232,522	16,892	73,674	26,979
1975	1,356,286	499,985	200,932	177,645	52,627	17,179	249,592	19,331	77,675	25,548
1976	1,523,844	520,907	190,514	242,580	45,938	11,425	342,825	33,473	69,058	25,152
1977	1,508,260	459,838	217,373	297,564	44,467	10,740	303,922	36,867	71,335	26,049
1978	1,549,362	375,223	352,597	270,574	65,906	8,157	289,949	46,805	73,598	22,287
1979	1,493,023	353,899	343,541	244,199	88,394	14,160	274,633	46,512	66,006	20,862
1980	1,268,626	301,721	293,011	213,549	95,562	12,128	197,704	35,811	62,081	17,710
1981	1,151,699	259,778	290,656	157,857	85,951	21,121	186,925	33,139	62,432	16,035

Source: Ministry of Construction

Table 2: Population Trends

(in thousands)

	Households		Marriages		Population in Three Metropolitan Areas*	
Year	Number	Percent Change	Number	Percent Change	Number	Percent Change
1970	27,869	---	1,029	---	45,580	---
1971	29,146	4.6%	1,091	6.0%	46,625	2.3%
1972	30,385	4.3	1,100	0.8	47,640	2.2
1973	31,908	5.0	1,072	-2.5	48,741	2.3
1974	32,678	2.4	1,000	-6.7	49,450	1.5
1975	33,310	1.9	942	-5.9	50,288	1.7
1976	33,910	1.8	872	-7.4	50,849	1.1
1977	34,380	1.4	821	-5.8	51,365	1.0
1978	34,859	1.4	793	-3.4	51,870	1.0
1979	35,350	1.4	789	-0.5	52,321	0.9
1980	35,831	1.4	775	-1.8	52,741	0.8
1981	36,347	1.4	777	0.3	53,194	0.9

*Tokyo, Osaka and Nagoya.

Source: Prime Minister's Office

Table 3: Personal Income, Loanable Funds and Value of Housing

(in millions of yen)

Condominium Apartments

Year	Annual Personal Income (A)	Loanable Funds* (B)	Value of Housing (C)	C/A	B/C
1972	¥2.01	¥7.00	¥7.69	3.83	91.0
1973	2.39	8.71	11.71	4.91	74.4
1974	2.83	10.71	16.57	5.86	64.6
1975	3.27	12.65	15.30	4.68	82.7
1976	3.61	14.00	16.30	4.52	85.9
1977	4.00	15.49	16.46	4.12	94.1
1978	4.12	16.68	17.11	4.15	97.5
1979	4.42	18.08	19.92	4.48	90.8
1980	4.93	19.89	24.77	5.03	80.3
1981	5.27	21.25	26.16	4.96	81.2
1982†	5.64	22.92	27.73	4.92	82.7
1983†	6.04	24.24	29.39	4.87	82.5
1984†	6.46	25.64	31.16	4.82	82.3

Single-Family Homes

Year	Annual Personal Income (A)	Loanable Funds* (B)	Value of Housing (C)	C/A	B/C
1972	¥2.01	¥6.78	¥10.76	5.36	63.0
1973	2.39	8.34	16.34	6.85	51.1
1974	2.83	9.96	21.17	7.49	47.1
1975	3.27	11.63	21.10	6.45	55.1
1976	3.61	13.02	20.07	5.56	64.9
1977	4.00	14.59	22.27	5.57	65.5
1978	4.12	15.67	22.48	5.45	69.7
1979	4.42	16.69	25.95	5.83	64.3
1980	4.93	18.32	31.43	6.38	58.3
1981	5.27	19.78	34.04	6.46	58.1
1982†	5.64	21.14	36.08	6.40	58.6
1983†	6.04	22.60	38.25	6.34	59.1
1984†	6.46	24.15	40.54	6.28	59.5

*Savings, Housing Loan Corp. and private financial institutions.

†Estimated.

Source: Mitsui Real Estate Development Co., Ltd.

Table 4: Value of Home Loans

	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980
Value in Millions of Yen											
Public Funds	¥2,658	¥1,106	¥1,373	¥1,661	¥2,389	¥3,339	¥4,524	¥5,738	¥7,390	¥10,142	¥13,106
Housing Loan Corp.	886	863	1,085	1,342	1,963	2,744	3,722	4,677	6,287	8,461	10,688
Private Funds	1,773	2,545	4,274	6,853	9,080	11,890	15,636	19,418	23,418	27,581	30,764
City Banks	225	366	744	1,347	1,806	2,437	3,201	3,911	4,715	5,481	6,031
Regional Banks	220	331	648	1,127	1,516	2,074	2,812	3,519	4,296	4,930	5,351
Trust Banks	16	42	49	74	105	128	157	183	206	229	238
Long-Term Credit Banks	49	69	80	101	132	173	226	289	378	444	510
Mutual Banks	92	138	320	589	800	1,103	1,462	1,784	2,142	2,505	2,723
Trust and Savings Associations	259	374	684	966	1,200	1,563	2,127	2,597	3,087	3,657	3,995
Agricultural Coops	332	445	532	730	985	1,136	1,335	1,483	1,523	1,639	2,028
Total	2,658	3,651	5,647	8,514	11,469	15,230	20,161	25,155	30,809	37,722	43,870
Percentage Distribution											
Public Funds	33.3%	30.3%	24.3%	19.5%	20.8%	21.9%	22.4%	22.8%	24.0%	26.9%	29.9%
Housing Loan Corp.	26.3	23.6	19.2	15.8	17.1	18.0	18.5	18.6	20.4	22.4	24.4
Private Funds	66.7	69.7	75.7	80.5	79.2	78.1	77.6	77.2	76.0	73.1	70.1
City Banks	8.4	10.0	13.2	15.8	15.7	16.0	15.9	15.5	15.3	14.5	13.7
Regional Banks	8.3	9.1	11.5	13.2	13.2	13.0	13.9	14.0	13.9	13.1	12.2
Trust Banks	0.4	1.1	0.9	0.9	0.9	0.8	0.8	0.7	0.7	0.6	0.5
Long-Term Credit Banks	1.8	1.9	1.4	1.2	1.2	1.1	1.1	1.1	1.2	1.2	1.2
Mutual Banks	3.5	3.8	5.7	6.9	7.0	7.2	7.3	7.1	7.0	6.6	6.2
Trust and Savings Associations	9.7	10.2	12.1	11.3	10.5	10.3	10.6	10.3	10.0	9.7	9.1
Agricultural Coops	12.5	12.2	9.4	8.6	8.6	7.5	6.6	5.9	4.9	4.3	15.4
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Source: Bank of Japan and Housing Loan Corporation

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THE STRUCTURE OF JAPANESE EDUCATION

SUMMARY

In Japan, the government and the private sector share a view that the country's future will be shaped by its competitiveness in high-technology fields. They recognize that the bottom of this pyramid is the quality of education. Since modernization began one hundred and thirty years ago, education has been a top government priority. With the advantage of a historically high educational standard, Japan today enjoys almost 100 percent literacy and its students consistently score top marks on international tests in mathematics and science.

This paper will examine the scope of the educational system, the government and the private sector's involvement in shaping policy and the business community's view of the development of human resources.

Postwar Education in Japan

Under the direction of the American Occupation, educational policy in the immediate postwar period aimed at eliminating the militarism and ultranationalism that were associated with the military's expansionist policies. The system today is quite similar to the United States, with nine years of compulsory education, three-year high schools and two- and four-year colleges. It is, however, a highly centralized system. The national government has always played a dominant role in shaping educational policy, which has the advantage of elevating the level of education through curriculum guidelines. This policy has also been criticized because it does not allow individual schools to be flexible. Recently, however, the government and educators have made greater efforts to adjust educational policy to changing needs of students and conform it to parental preferences.

Japan provides all children with nine years of free and compulsory education. There are three types of schools — national, public (prefectural and municipal) and private. After grammar school, students have a choice of senior high schools aiming at college admission or vocational schools in agriculture, business, commercial fishing and home economics. Still other schools offer training in commercial shipping, telecommunications, physical education and the fine arts. There are also night schools for working students and correspondence courses, both of which offer high-school degrees.

Higher education is provided by national, public and private universities, teachers colleges, nursing schools, and four- and five-year professional schools. The curricula include the humanities, social sciences, natural sciences, engineering, agriculture, education and medicine (including public health). Major universities offer M.A. and Ph.D. degrees for most disciplines.

After the war, the government's goal was to provide an education for all Japanese children. As Table 1 shows, this was rapidly achieved.[1] The number of children in school reflects fluctuations in demography. As a result of the postwar baby boom, 12 million attended grammar schools in 1955 and more than 13 million in 1958, compared with 11 million in 1953. A slowdown in population growth caused the numbers to drop in the 1970s, but since 1978, there has been another increase.

Kindergarten is optional, but 80 percent of four-year-olds and 90 percent of five-year-olds are enrolled. These are largely private (73 percent), with only 26 percent run by municipalities and less than 1 percent operated by the central government. High attendance in non-compulsory kindergartens is explained by the belief that the preparation is essential for grammar school and the programs include considerable training in reading and arithmetic.

In 1950, 42 percent of students went on to senior high school. By 1980, that number was 94 percent, of which a slightly higher number were girls (95 percent of junior high graduates) than boys (93 percent). By comparison, more than 90 percent have been continuing on to senior high schools in the United States since 1960. In France, by comparison, 70 percent of all students went to high school in 1970, while in England, only 20 percent did so in 1974. According to the latest statistics available (1980), 4.6 million Japanese students attended high school. Of these, almost 150,000 attended evening courses and worked during the day.

Cost of Education — Public school expenses for parents are minimal — lunches, school outings, and some curriculum-related items. In 1979, parents paid ¥43,000 ($175 at current exchange rates) a year per child in elementary school, ¥75,000 ($305) in junior high school and ¥153,000 ($622) in senior high school. In 1966, the parents' share of costs was more than 13 percent in grammar schools, but by 1974 it declined to less than 10 percent, and by similar margins in upper schools.

The cost of education to the nation in 1978 came to ¥14 trillion ($57 billion), of which the government provided 80 percent.[3] This is a dramatic increase from 1950 when the amount was only ¥174 billion ($707 million) and it has far outpaced inflation. Since 1950, the ratio of educational expenditures to GNP has been steadily increasing, from the 5-to-6-percent level in the 1950s to 8.4 percent in 1978, a ratio that is within the same range as the United States. Government expenditures for education have been between 10 and 13 percent of the total central government budget since 1955; municipal government education expenses have ranged from 25 to 28 percent during the same period. In the first nine years of school, an international comparison of education expenses shows that Japan spent 43 percent on teachers' salaries in 1978, compared with 56 percent in the United States, 61 percent in West Germany, 67 percent in England and 83 percent in France.

Financial assistance to families who are unable to meet expenses is available to cover the cost of school lunches and excursions. There are scholarships provided by national and municipal governments for handicapped children who attend special schools for the blind and the deaf. Scholarships based on need are also awarded to high school and college students by government and private foundations. The nationally run Nihon Ikuei-kai, for example, awarded ¥92.5 billion ($376 million) to 380,000 students in 1980.

Curriculum — The Ministry of Education in 1947 developed academic guidelines for graduation, and has since amended them four times to adjust to changing social expectations.[4] At present, grammar school students are taught Japanese language and

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literature, social studies, mathematics, science, music and art, home economics and physical education. In junior high schools, students are required to take Japanese language and literature, social studies (including history, philosophy and civics), mathematics-science (including physics, chemistry, biology and geology), music, art and physical education. Foreign languages, home economics and other subjects are optional, but English is virtually compulsory.

In senior high schools, the curriculum is more flexible after the first year in which students take Japanese language and literature, classics, civics, science and mathematics. One optional course per year is chosen from a group including music, art, calligraphy or physical education.

There is a heavy emphasis on mathematics for students preparing to take college entrance examinations because the Japan University Association, which sets standards, requires a high degree of mathematical competence. In the second year, the mathematics curriculum includes probability and statistics, vector analysis, differential and integral calculus, number theory and computer science. Students can also take optional courses in algebra, geometry, pre-calculus, calculus and statistics. Course selection depends on the individuals' goals and desire for technical training, but the mathematics requirement applies to all public high school students.

Candidates for admission to national and public colleges are required to take an examination covering seven subjects — Japanese language, social sciences (two), mathematics, science (two) and foreign language (English, German or French). This means that all national/public Japanese college students have passed examinations that include the required mathematics training and at least one advanced math course regardless of their college majors. Top level private universities also require vigorous math examinations, depending on the student's desired major.

College Education

In 1980, about 38 percent of all high school graduates entered college, close to the level in the United States. The number of Japanese college students shot upward in the latter half of the 1960s, while the number in other advanced countries increased only gradually. In 1978, college attendance in Japan reached an all-time high of 2.26 million -- ten times higher than in 1950.[5] In 1980, 1.84 million attended four-year universities (including 50,000 in graduate schools), 370,000 were in junior colleges and college-level professional schools enrolled 20,000. Of these, 22 percent were in public institutions and the rest in private schools (mostly junior colleges). Although nearly all public universities are co-educational, only 22 percent of the students in four-year programs were women, but they comprise 90 percent of all junior college enrollment.

The Japanese university system requires students to choose a major before taking entrance examinations. In 1980, among four-year college entrants, 40 percent chose either economics and commerce, law or political science. The next largest group was engineering, about 20 percent, which includes computer science, architecture, applied chemistry and physics. The small 3-percent figure for science majors refers to students in theoretical sciences leading to teaching and academic careers. About 14 percent majored in humanities, including literature, sociology, history and philosophy. The concentration in humanities and social sciences has not changed since 1960, but the number of those majoring in engineering has increased sharply. About half of all engineering majors proceed to graduate school; only 10 percent of students from all other disciplines choose this route. Engineering students with graduate degrees are eagerly sought-after and enjoy abundant job opportunities.

Education Outside of Schooling

Because of the intense pressure to pass the college entrance examinations, many students pay for tutoring after school and for preparatory schools if they were not initially accepted at the college of their choice. It is not uncommon to find that half of all college freshmen have had at least one year of post-high school study. These privately run juku (cram schools) are booming. There are a wide variety of such schools, ranging from extensive institutions covering all required subjects to neighborhood classes with only one or two subjects. Since math is one of the most difficult subjects, the demand for good teaching in this area is strong. One organization specializing in this field last year enrolled one million students at 20,000 classes nationwide. This school emphasizes a system of encouraging children to like mathematics, and has attracted a great deal of attention from educators.

Another popular school, although not directly connected with college admission, offers abacus lessons. After the introduction of calculators, there has been an increase in interest in the abacus because of the conviction that depending on machines is not good training for children. The Japan Chamber of Commerce gives certificates for abacus users and the examination is taken into account by many corporations in recruiting clerical staff. Last year, 1.4 million elementary, junior-high and senior-high school students took the exam. There is also a popular national contest among the youth that tests the accuracy and speed of mental arithmetic, including adding, subtracting, dividing and multiplying beyond six figures in just seconds.

Education as an Investment in Human Resources

The belief in the value of education since the Meiji period was based on a premise that a good educational system would impact on the nation's level of economic and military power and provide the foundation to make Japan part of the world community. Was this goal accepted by the public? A strong incentive for its acceptance before World War II was the direct link between education and social mobility. The radical social reform carried out by the Meiji government abolished the rigid class system. It created a European-style school system headed by seven Imperial Universities whose graduates were seen as an elite. Academic competence, not family origins, occupation or income, was the only key with which to enter this class, however. There were opportunities for bright children of poor families to take this path through scholarships provided by local community leaders, which they considered a good investment in human resources, beneficial to the community, and lending a certain prestige to the donor. This elite image of education was a strong incentive to induce the public to embrace learning.

After World War II, the emphasis shifted to compulsory nationwide education. Because of the quantitative progress in numbers of students, college degrees themselves do not automatically guarantee higher income and social status. Instead, the reputation of individual universities largely determines job prospects -- hence the fierce competition to get into prestigious schools. However, recent trends indicate that blind acceptance of job applicants on the basis of their degrees has been disappearing, although large companies still tend to recruit from a limited number of schools.

With a wide range of choices in higher education and the unpredictability of social and economic changes, it is difficult to determine the link between the motivation for higher education and its economic results. A detailed study on education and social mobility points out the various elements included in the consideration of incentives.[6] Access to higher education is determined by individual students' academic records, the family's financial ability and the students' idea of career development. There are also factors beyond one's control, such as the condition of the economy, recruitment policy, changing industrial structure and shifting demand in expertise.

It is safe to conclude that both the government and the private sector, in their drive to extend and improve the educational system, have moved in the right direction in terms of achieving economic and industrial progress. Almost all junior high school students proceed to senior high schools, and regardless of whether or not these students proceed to college, the nation's general level of understanding of basic scientific knowledge is widespread. The egalitarian educational system is consistently at a high level, as indicated in international comparisons of mathematical ability, and provides a promising fertilizer for technology-oriented industries.

Recent Recruiting Trend

Observers of the labor market point out that in the 1980s college graduates with engineering majors will have little difficulty finding jobs, both with the top manufacturing firms and in other industries which traditionally have not been interested in this background. In the high economic growth period, engineering majors enjoyed a booming labor market, but much slower economic growth after 1973 discouraged aggressive recruitment until in the 1980s, when demand bounced back. Analysts attribute this trend to the realization that the 1980s and 1990s will be a period of diverse and innovative technology which will require heavy expenditures on basic research. The service industry also sees the potential in engineering majors who will contribute to the computerization of operations, the creation of markets through automation and to communication networks.

Interviews to recruit college graduates start in October. Graduation is the following March. However, a number of personnel offices have established information networks to identify promising students, and particularly in the engineering departments where professors closely counsel students on their professional careers. In addition to interviews, school recommendations and examinations are equally important for engineers.

This fall, Nippon Electric Co. (NEC) said it would hire more than 600 engineers next year. Hitachi Ltd. plans to hire about 700, Toshiba Corp. 700 and Sony Corp. more than 500. In a reflection of the rapid progress in electronics and computers, students with these skills have been actively sought. A 1980 survey revealed that the largest consumer appliance and computer makers mostly hired electronic engineers, even though mechanical engineering continues to be popular.[7] Major auto makers have also stepped up their hiring of engineers. Toyota Motor Co., Ltd. hired more than 200 engineering graduates and Nissan Motor Co., Ltd. 300. Half of those recruited by the top manufacturing companies held masters' degrees, unlike most humanities and social science majors who are hired with bachelor degrees and trained by the companies which hire them.

Even though these engineering graduates are recruited as future executives and senior specialists, they are assigned to work in the factories for the first two to three years for training in factory management, inventory and financial flow, quality control and technological innovation. This is repeated at the middle management level to refresh their expertise. With lifetime employment, they are shifted back and forth between headquarters and branch offices, between domestic and overseas assignments and between the parent and subsidiary companies.

The engineers' image of the most desirable companies has not changed much in recent years, and include Hitachi Ltd., Fujitsu, Ltd., NEC, Toshiba, Mitsubishi Heavy Industries, Matsushita Electric Corp., Toyota Motor Co., Ltd., Nippon Steel, Sony Corp., Japanese National Railways and Nippon Telegraph and Telephone Public Corporation. At the same time, quite a few engineers enter the civil service or take up academic careers.

Since the number of graduates is less than the demand, competition among companies is intense. The largest companies tend to concentrate on selected national and public universities, which places smaller manufacturing companies and new recruiters from the service industry at a disadvantage. With demand for engineers rising, many private universities which traditionally enrolled a smaller number of engineering students have seen a dramatic increase in recruitment of their engineering graduates. Students in non-engineering majors, on the other hand, have faced much bleaker job-prospects for careers in banking, finance, insurance and trading companies.

Business and Academic Views on Technological Progress

The government and the business community unanimously agree that it is critical for Japan to become a technologically oriented nation. Many experts eye the 1990s as the time when Japan's innovative technological progress will emerge. They are confident that the country has passed through the era of absorbing and applying research done in America and Europe. This view is supported by a statistical survey that shows since 1972 Japan has exported more technology under new contracts in the manufacturing sector than it has imported.

In the past, Japan concentrated on investing human resources in applied science and production technology rather than in basic research. Business leaders contend that this cannot continue and the private sector should invest the large expenditures required for research and development. Contrary to the popular image in which the Japanese government is pictured as dominating technology, 70 percent of actual research and development (R&D) expenditures come from industry. In the United States, by comparison, the government funds about 50 percent of all research and development, and if defense-related research is excluded, 35 percent.

The Japanese government's role in technology is to help build a consensus on the direction of technology. The Ministry of International Trade and Industry and the Science and Technology Agency have recently begun to develop projects in future sciences. Some industry leaders are pressing for a coordinated effort in which the government would concentrate on long-term strategy, the academic community would run the research and industry would pay for the costs.

At a 1980 seminar of the Japan Federation of Economic Organizations (Keidanren), the president of Hitachi Ltd. pointed out that "the private sector shoulders 70 percent of R&D expenditures, employs 60 percent of the researchers, and carries out 50 percent of all applied research and 80 percent of all development research."[8] He also emphasized the importance of a solid education in science and technology to encourage creativity and observed that innovative scientific education from a young age is vital.

Even though there has been strong criticism both in Japan and abroad about the monolithic nature of the education system, the government's efforts to provide diversified types of education are slowly beginning to have effects. A new national university was founded in 1973 which abolished the faculty system and divided the students into six blocs with interdisciplinary courses. In 1976, two national engineering colleges for graduates of vocational high schools were established. The Ministry of Education since 1972 has been re-shaping college requirements to allow more choice in course work requirements and majors.

According to Nobel Prize winner Kenichi Fukui of Kyoto University,[9] the engineering department in the Japanese university system has always dominated other science disciplines and has particularly emphasized specialization in mechanical, electrical and structural engineering. There have been very few theoretical courses; instead there has been more integration of basic and applied research. His view is that with more integration of the disciplines and a blurring of the boundaries of physics, chemistry and biology, for example, an education in basic research is vital. Business leaders also agree that Japan needs to invest more in basic research. The Keidanren symposium mentioned above surveyed 200 leaders in manufacturing whose priorities for basic research lie in the following areas: nuclear energy, aerospace, life sciences, marine sciences, information and software.

The business community has always been active in educational policy.[10] Its criticism of the postwar school system centered on the rigidities which prevented students from pursuing a more flexible curriculum. A 1972 report urged moving toward fields useful in a more information-oriented society. Earlier in 1960, industry's concern over the shortage of college graduates in science and technology persuaded the government to increase the quota for college students in this field. Industry is well represented in the Education Ministry's advisory council which determines the nation's educational guidelines. Even though the private sector rarely exercises direct influence, and does not usually hold Cabinet or other political posts, it has close contact with the Liberal Democratic Party's education committee members and the Ministry of Education.

Strains in the educational system derive from the continued confrontation between the political/business establishment and Nikkyoso, the powerful teachers' union. Nikkyoso and its parent organization, the government employees' union Sohyo, which is affiliated with the Japan Socialist Party, is wary of any attempts to restore traditional prewar values and subject the nation, as they see it, to a new conservatism. They have opposed the proposal to diversify elementary and high schools by type, arguing that it will create class distinctions.

Conclusion

The Japanese school system is not without problems. Competition in the college examination system produces great stress, imposes a serious financial burden and promotes a rigid career development ladder. Even though almost all junior high school students enter senior high schools, the number of drop-outs has been increasing because of academic problems. The quality of the teachers is often questioned, and parents are increasingly frustrated by what they see as shortcomings in the system. The affluent society has produced children who do not have the same view of life as their parents. Educational experts voice concern that while compulsory education has been achieved, academic ability has been declining.

On the other hand, there are signs that a considerable number of students are benefiting from their education. So far, there has not been any serious opposition to the emphasis on mathematics and sciences, and Japan's postwar achievements in education certainly seem to lay the foundation for a strong, technologically oriented population in the future.

Footnotes

(All materials are in Japanese unless otherwise indicated.)

[1] Ministry of Education, White Paper on Education (Waga Kuni no Kyoiku Suijun), 1980.

[2] Ministry of Education, Education Expenses Disbursed by Parents (Fukei ga Shishutsu Shita Kyoikuhi), 1980.

[3] White Paper, Table 1.

[4] Ibid., and Ministry of Education, Guidelines on Senior High School Curriculum (Koto Gakko Gakushu Shido Yoryo), August 1978.

[5] White Paper.

[6] Mary Jean Bowman, Educational Choice and Labor Markets in Japan, (The University of Chicago Press, 1981) (in English).

[7] "Recruitment in the 1980s" (Gendai Shushoku Mondai Kenkyu-kai), Chuo Koron Business Management Quarterly, Summer 1980.

[8] Keidanren (Japan Federation of Economic Organizations), Technological Progress (Waga Kuni no Gijutsu Kaihatsu o Kangaeru), March 1980.

[9] Kenichi Fukui, "On Receiving the Nobel Prize," Chuo Koron, April 1982.

[10] Yung H. Park, "Big Business and Education Policy in Japan," Asian Survey, March 1982 (in English).

For further information, contact Fumiko Mori.

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Table 1: Education Expenditures in Japan

(in millions of yen)

Year	GNP	Education Expenditures	Percent of GNP	Public School Expenditures	Percent of Education Expenditures	Private School Expenditures	Total Government Expenditures	Percent of Public School Expenditures to Total Government Expenditures
1950	¥ 33,515	¥ 1,739	5.1%	¥ 1,598	91.9%	¥ 141	¥ 9,146	17.5%
1955	72,985	4,373	6.0	3,720	85.1	653	17,242	21.6
1960	132,691	7,522	5.7	6,125	81.4	1,397	29,096	21.1
1965	262,228	17,882	6.8	13,850	77.5	4,032	62,359	22.2
1970	608,325	35,470	5.8	28,844	81.3	6,627	141,698	20.4
1975	1,240,386	96,114	7.7	81,189	84.5	14,924	363,972	22.3
1976	1,376,498	107,911	7.8	90,416	83.8	17,494	417,721	21.6
1977	1,522,872	123,000	8.1	102,906	83.7	20,094	491,488	20.9
1978	1,659,901	139,167	8.4	117,611	84.5	21,556	567,704	20.7

Source: Ministry of Education, White Paper on Education, 1980.

Table 2: Percentage Distribution in Major Fields of Study

Undergraduate Programs

Year	Humanities	Social Science	Science	Engineering	Agriculture	Physical Education	Education	Others
1960	12.9%	42.9%	2.7%	15.4%	4.7%	5.9%	10.5%	5.0%
1965	12.7	43.1	3.0	19.5	4.1	5.1	7.8	4.7
1970	12.7	41.8	3.1	21.1	3.7	4.9	6.9	5.8
1975	13.1	41.7	3.0	20.2	3.6	5.6	7.2	5.6
1980	13.8	40.5	3.1	19.4	3.4	6.4	7.9	5.5
Master's Programs								
1960	34.6%	28.5%	11.9%	14.7%	4.5%	1.7%	*	4.1%
1965	18.5	20.0	13.1	33.7	6.1	3.1		5.5
1970	18.6	16.6	10.8	37.0	7.4	3.3		6.3
1975	17.8	13.7	9.6	40.3	8.0	3.0		7.6
1980	15.3	11.3	10.5	41.5	7.1	4.2		10.1

Doctoral Degree Programs

Year	Humanities	Social Science	Science	Engineering	Agriculture	Medicine	Education	Others
1960	13.7%	12.0%	12.1%	5.3%	4.6%	46.4%	*	5.9%
1965	11.0	9.3	10.7	11.0	3.6	47.9		6.5
1970	14.2	13.0	17.1	17.8	6.3	22.1		9.5
1975	16.5	14.7	15.8	16.9	6.8	18.4		10.9
1980	15.7	13.3	14.2	12.9	6.0	26.1		11.8

*Included in Humanities

Source: Ministry of Education, White Paper on Education, 1980.

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JEI REPORT

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Foreign Minister Abe Discusses Major Policy Issues

The new Foreign Minister, Shintaro Abe, who ran third in the Liberal Democratic Party's (LDP) primary, is still expected to be a contender for the top position at some future date. Mr. Abe, 58, belongs to the Fukuda faction and is Mr. Fukuda's likely successor. A former journalist for a national daily newspaper, he entered politics when elected to the House of Representatives in 1959. Since then, he has steadily risen in party ranks, and has served as Minister of Agriculture, Chief Cabinet Secretary, Minister of International Trade and Industry (MITI) and chairman of the LDP Policy and Research Council. His experience as MITI minister is expected to enhance his standing in international trade issues.

In an interview with Nihon Keizai Shimbun, the Foreign Minister emphasized that U.S.-Japan relations are central to Japan's foreign policy. With bilateral trade and defense tensions mounting, he stressed that establishing commmunication between President Reagan and Prime Minister Nakasone is vital. Referring to rising threats of protectionism, he assured the United States that Japan would proceed step-by-step on the market-access question and would hope to make some announcement before Mr. Nakasone's planned visit to the United States in January. On the defense debate, his view is that while Japan should accelerate its defense build-up, the United States has to appreciate the severity of the country's budget problem. Reports suggest that the

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1980	1981	January-October 1981	January-October 1982	August 1982	September 1982	October 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$ 17,234	$ 15,481*	$ 984*	$ 2,426*	$ 1,991*
Exports (f.o.b.)	126,736	149,522	123,582	115,246*	10,405*	11,650*	11,060*
Imports (f.o.b.)	124,611	129,555	106,348	99,765*	9,421*	9,224*	9,069*
Current Account Balance	-10,746	4,770	4,698	5,943*	-30*	1,463*	1,429*
Long-Term Capital (net)	2,394	-6,449	-6,836	-15,326*	-2,286*	-416*	-291*
Overall Balance	-8,396	-2,144	-2,222	-6,817	-397	823	-73
International Reserves (end of period)	25,232	28,403	28,448	22,840	24,416	24,009	22,840
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	7,501	5,698*	-40	1,554	982*
Exports (f.o.b.)	129,807	152,030	125,900	116,214*	10,421	11,635	11,096*
Cars	16,115	18,445	15,375	15,043*	1,266	1,453*	1,443*
Steel	15,454	16,669	13,559	13,430*	1,218	1,235*	1,143*
Imports (c.i.f.)	140,528	143,290	118,399	110,516*	10,461	10,081	10,115
Crude Oil	52,763	53,343	44,264	38,153*	3,560	3,327*	3,523*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	10,737	10,270*	693	1,290*	1,095*
Exports (f.o.b.)	31,367	38,609	31,529	30,601*	2,704	3,197*	2,895*
Imports (c.i.f.)	24,408	25,297	20,792	20,332*	2,011	1,907*	1,801*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥261.70	¥269.50	¥277.30
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-13,466	-15,184	-2,082	-1,336	-1,440
Exports (f.a.s.)	20,790	21,823	17,818	17,348	1,732	1,568	1,804
Industrial Supplies	9,501	8,983	7,244	7,571	733	624	806
Food and Feed	5,393	5,896	4,991	4,175	500	434	430
Capital Goods	4,340	4,767	3,846	3,696	314	337	382
Consumer Goods	1,154	1,318	1,111	1,133	114	111	103
Imports (f.a.s.)	30,701	37,612	31,284	32,563	3,814	2,905	3,274
Automotive Products	11,436	12,950	10,983	11,088	1,266	920	1,154
Industrial Supplies	5,926	7,179	5,885	6,046	689	503	438
Consumer Goods	6,198	8,340	6,911	6,734	819	648	781
Capital Goods	6,555	8,589	7,080	8,096	983	783	854

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-September 1981	January-September 1982	July 1982	August 1982	September 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	8.4%	10.0%	9.1%	8.9%	9.6%
Industrial Production	7.0%	3.1%	2.2%	2.0%	1.1%	1.5%	0.6%
Manufacturing Operating Rate	0.7%	-4.6%	-5.8%	-2.1%	-3.3%	-2.9%	-3.4%
Number of Bankruptcies	11.6%	-1.5%	-0.6%	-3.2%	-3.4%	-3.5%	-3.2%
Residential Construction Starts	-15.0%	-9.2%	-10.6%	-3.7%*	7.8%	4.9%	6.9%*
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.62	0.58	0.58	0.59
Nominal Wages	6.3%	5.3%	5.1%	5.1%*	4.7%	8.0%	5.0%*
Labor Productivity	9.1%	3.5%	2.6%†	2.5%†	2.3%	n.a.	n.a.
Wholesale Prices	17.8%	1.7%	1.8%	1.9%	1.3%	1.0%	1.4%
Consumer Prices	8.0%	4.9%	5.3%	2.7%	1.7%	3.1%	3.2%
Yen-Based Export Prices	9.3%	1.9%	0.8%	4.2%	1.8%	0.5%	1.2%
Yen-Based Import Prices	43.0%	3.0%	1.7%	7.4%	5.7%	6.0%	8.5%

*Preliminary

†Through July of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 17, 1982.

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Japan Planning New Trade Steps After United States Sets Deadline for Market-Access Action

Exasperated by Tokyo's apparent intransigence on market-access issues of high priority to the United States, Reagan administration trade policymakers have recently been warning the Japanese government in increasingly tougher language that time is running out for action on the trade-liberalization front. Deputy United States Trade Representative David Macdonald underscored this message at the fourth meeting of the U.S.-Japan trade subcommittee, held in Tokyo December 3 and 4, by asking the Japanese government to indicate by specified but undisclosed dates how it intends to respond on a long list of U.S.-identified market-access problems. Japan's answers will have a significant impact on the administration's trade-policy direction, Mr. Macdonald cautioned Ryohei Murata, director general of the Ministry of Foreign Affairs' Economic Affairs Bureau and the top Japanese representative at the talks.

Undersecretary of State for Economic Affairs Allen Wallis delivered a similar message to Tokyo when he and other American subcabinet-level officials met with their Japanese counterparts December 6 and 7 to discuss bilateral and global economic issues. These latest U.S. warnings apparently hit home. Following the two meetings, Prime Minister Yasuhiro Nakasone told his Cabinet to come up with a new set of trade-liberalization measures before he visits Washington in mid-January. Even Japanese observers acknowledge, however, that the concessions currently under consideration in Tokyo fall far short of the Reagan administration's demands for expanded access to the Japanese market.

Certain to be on the list of new market-access measures are tariff cuts on 38 agricultural products not included in the May trade-liberalization package. Japan is also expected to offer increased quotas for tomato juice, tomato ketchup and tomato sauce, fruit purees, non-citrus juices, peanuts and dried peas and beans, thereby heading off a U.S. threat to file a complaint with the General Agreement on Tariffs and Trade over these items. Some Japanese government officials have been floating the possibility of a reduction in the 35-percent duty on cigarettes, but the strong opposition of the Finance Ministry and the Japan Tobacco and Salt Public Corp. to such a move make this step a highly questionable candidate for inclusion on the new market-access list. Even more unlikely are concessions on beef and citrus, probably the Reagan administration's top priority, if recent statements by Agriculture, Forestry and Fisheries Minister Iwazo Kaneko and Economic Planning Agency Director General Jun Shiozaki, charged with mapping out the additional trade-liberalization steps, are taken at face value.

Susan MacKnight

House Passage of Domestic-Content Bill Appears Certain

At JEI presstime, consideration of H.R. 5133, the automotive domestic-content bill, had already begun on the House floor and observers expect it to pass before Congress adjourns on December 17. Although the Senate Commerce Committee was scheduled to hold hearings on December 16 on the Senate companion bill (S. 2300), its chances of passing this chamber are not good. The bleak economic outlook, however, suggests that protectionist sentiments will carry over to the 98th Congress and that legislation along the lines of H.R. 5133, perhaps applicable to other import-vulnerable industries as well, will re-surface very early in 1983. At a recent trade seminar, Senate Finance Committee chairman Robert Dole (R, Kans.) predicted that a full-scale debate on automotive domestic-content requirements would begin soon after the new Congress convenes.

After an unusually lengthy debate on H.R. 5133, the House Rules Committee granted the bill an "open rule," which means that any and all amendments would be considered during floor debate. Additionally, the Energy and Commerce Committee and the Ways and Means Committee were each granted one hour of general debate on the measure, divided equally between majority and minority committee members.

One of the main themes of the proponents has been that passage of the bill is imperative to send a "meaningful signal" to Japan that it must open its markets to sectors in which the United States is a competitive exporter. Another point is the alleged "jobs creation" aspect of the legislation, not only for auto workers but for those engaged in supplier industries as well. "H.R. 5133 will put thousands of Americans back to work," Rep. John Dingell (D, Mich.) told the House Rules Committee. "It is a fair and balanced response to current problems in the world automobile industry. . . . The only major open market in the world for motor vehicles is the United States, and we have become victims of the Japanese 'export economy', . . . which provides for worker security in Japan. . . and unemployment in the United States." Opponents of automotive domestic-content requirements, on the other hand, warned that passage of the bill would spark foreign retaliation. Rep. William Dannemeyer (R, Calif.) also pointed out that H.R. 5133 would not create jobs, but would instead transfer them. "If this bill is enacted into law," Rep. Dannemeyer argued, "Americans whose jobs relate to auto imports, such as longshoremen and import auto dealership employees, would be lost."

The House began consideration of H.R. 5133 on December 9 and has already disposed of one amendment. Rep. Sam Stratton (D, N.Y.) proposed that language be inserted that called on the Secretary of Transportation to conduct a study after three

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years to determine whether the content requirements had a negative impact on foreign investment in the United States or on importers with existing domestic operations. This amendment was overwhelmingly defeated; free traders did not want it to be construed as "legitimizing" H.R. 5133 and proponents did not want to risk the possibility of the program being dismantled after 1986.

There are rumored to be at least a dozen other amendments to be considered before the final vote. Among them are Rep. Bill Frenzel's (R, Minn.) proposal, allowing the President to suspend the domestic-content requirements if they violate the General Agreement on Tariffs and Trade, and Rep. Clarence Brown's (R, Ohio) move to protect importers such as Honda Motor Co., Ltd. and Nissan Motor Co., Ltd. that have already established domestic operations. The Ohio Republican's alternative would, in effect, give these foreign producers a longer phase-in period before they would have to meet the maximum 90-percent domestic-content level.

The administration has steadfastly opposed H.R. 5133. During a recent U.S. Chamber of Commerce seminar, United States Trade Representative William Brock maintained that the chance of foreign retaliation is "100 percent" if Washington implements such restrictive legislation.

Barbara Wanner

Nakasone Cabinet Outlines Economic Policy

Addressing a special session of the Diet on December 3, Prime Minister Yasuhiro Nakasone stressed his commitment to continued government efforts to address the issues of government administrative reform, fiscal reconstruction, economic recovery and international trade problems. Referring to the July recommendations of the Government Administrative Reform Commission, he said that he had submitted to the Diet draft legislation to establish a commission to restructure the Japanese National Railways. While he also added that he intended to reduce government spending, he did not refer to the question of private ownership of the Nippon Telegraph and Telephone Public Corp. and the Japan Tobacco and Salt Public Corp. — both targeted for reform under recommendations previously submitted.

On the fiscal situation, Mr. Nakasone indicated that outstanding deficit-financing bond issues would reach ¥90 trillion ($367.4 billion at current exchange rates) by the end of FY 1982, and confirmed the government's intention to issue new bonds despite efforts to raise revenues and reduce expenditures. The Prime Minister admitted that it would be difficult to balance the budget by FY 1984, as his predecessor, Zenko Suzuki, had hoped. He said, however, that he is determined to slash government spending and would direct government agencies to submit budgets for FY 1983 at this year's levels. As yet, Mr. Nakasone has not called for a tax increase, and it remains to be seen whether he can achieve fiscal reconstruction without such a measure.

Thus far, the economy remains sluggish. Real (inflation-adjusted) growth in the July-September quarter was down to 2.4 percent at an annual rate, compared to the revised April-June quarter high of 8.0 percent. Mr. Nakasone noted, however, that his administration would seek to expand domestic demand and implement policies for depressed industries. He also referred to the five-year economic plan, which he said would consider both the country's economic future and its social development.

The most important issue, the Prime Minister acknowledged, is Japan's response to the rising tide of protectionist pressures. Insisting that the country would make every effort to contribute to the maintenance of the free-trade system, he stressed the importance of a strong relationship with the United States. Absent from this address was any mention of specific measures to achieve these goals, but Mr. Nakasone has said that he will present more concrete recommendations in his second policy speech to the Diet in January.

Yoshio Nakamura

Japanese Views of the Nakasone Cabinet

Prime Minister Yasuhiro Nakasone's Cabinet appointments have drawn sharp criticism from the Japanese press, which has attacked the selections as directly under the control of the Tanaka faction. Former Prime Minister Kakuei Tanaka, whose support guaranteed Mr. Nakasone's election, is a defendant in the Lockheed trial, and it is widely assumed that he is anxious to minimize political damage should he be found guilty. In defending his choices, the new Prime Minister urged the public to judge the Cabinet in terms of its achievements rather than on the basis of hearsay.

Reaction from the business community has been more positive; the Cabinet is considered competent and seasoned. Some observers have remarked on the fact that three key economic posts -- the Finance Minister, the Minister of International Trade and Industry (MITI) and the Economic Planning Agency Director General -- went to tax experts, suggesting that the government's budget difficulties will take priority in this administration.

Finance Minister Noboru Takeshita, who held the same post in the Ohira Cabinet, will have to evaluate the Suzuki Cabinet's approach to resolving the budget deficit without calling for a tax increase. The Economic Planning Agency's Director General, Jun Shiozaki, is a career Finance Ministry official who has been active in the tax field for 20 years. MITI Minister Sadanori Yamanaka has been chairman of the Liberal Democratic Party's (LDP) tax committee, and while he has not been active on international trade issues recently, his outspoken style and the fact that his district is not affected by agricultural imports has generated expectations that he might be effective in international negotiations.

Shigeo Nagano, chairman of the Japan Chamber of Commerce, recently told Chuo Koron Monthly that the business community felt that since a clear majority of LDP members supported Mr. Nakasone, he could be a strong leader. Mr. Nagano listed five goals for the new leadership: political stability, reform of the government structure, control over the deficit, small-business assistance measures, and a strategy to maintain free trade.

There is widespread concern about the country's economic performance. Both exports and imports have been declining, unemployment is at a postwar high, domestic demand is stagnant, and the dramatic revenue shortfall does not suggest a simple resolution. Finance Ministry officials have already talked about a zero-growth budget for the next fiscal year. The present debate centers on the government's economic management. It has been suggested that a stimulative economic policy should be the first step, but there is no agreement among officials. If tax increases are being considered -- a politically explosive issue, that policy can be expected to be the focus of attention in the near future.

The Prime Minister has long supported an increased defense role for Japan, and has gone so far as to suggest that the constitution should be amended — a proposition which drew the ire of the opposition in Diet hearings. Mr. Nakasone did say that "for the time being," he does not think the amendment is necessary. But the issue, on which political parties are sharply divided, is certain to be used by the opposition.

There is strong suspicion in the press that Mr. Nakasone might propel the nation into a more active defense role. His reputation for flexibility has prompted a closer look at his past. Professor Kenzo Uchida of Hosei University, writing in Chuo Koron, concluded that the Prime Minister has long been attracted to a strong nationalism. In 1947, Mr. Nakasone founded Seiun-juku, which advocated an independent nation with Asian-style democracy. At the thirtieth anniversary of this group in 1977, he urged the government to take the initiative in both domestic and foreign policies and, as recently as 1982, advocated a return to the principles of Seiun-juku.

According to a recent Asahi Shimbun poll, an equal number of respondents (37 percent) supported and opposed the new Cabinet, while 26 percent said they were undecided. At the same time, a high 54 percent supported the Liberal Democratic Party. Whether or not this mood carries over to the new year when major political decisions must be made depends on Mr. Nakasone's political skills.

Fumiko Mori

Japan's Unemployment at a Postwar High

Unemployment rose in Japan to 1.39 million in October, putting 2.5 percent of the country's employees out of work -- one of the highest figures in the postwar period. Compared with the same month of last year, there was a 9-percent increase in male unemployment and a 20-percent increase in the number of unemployed women. Because the definition of unemployment is stricter in Japan than in the United States, economists point out that the 2.5 percent would be at least twice as high if Japan used the same method as the United States.

The unemployment figures had been inching up from November 1981 to June 1982. There was a brief halt in July and August, but the outlook has worsened since summer. At the same time, of the total workforce in October (57 million), the number of new entrants (280,000 males and 450,000 females) was higher than at any time this year.

As a consequence of the slump in trade, employment in export-oriented industries is down. Output cuts have been ordered in precision machinery, transportation equipment, consumer electronics and steel. In addition to production cutbacks, some manufacturing and trading companies have announced plans to reduce the number of employees through early retirement, relocations and layoffs. In the transportation sector, a decline in blue-collar employees was reported for the first time in the recent past. The Labor Ministry has pointed out that in addition to the worldwide economic slowdown, various import restrictions have affected this sector.

Moreover, the traditional semiannual bonus, which ranges from two to three months' salary and is an established practice for almost all employees in Japan, is expected to be unusually low this year. A Nihon Keizai Shimbun survey of 700 major companies revealed that the increase would be less than 3 percent, averaging ¥534,000 ($2,180 at current exchange rates). Although total bonus payments in the government and private sector are expected to be about ¥15 trillion ($61.2 billion), the Economic Planning Agency is pessimistic about their stimulative impact on the economy since the inflation rate is close to 3 percent.

Fumiko Mori

Senate Subcommittee Considers Wolfowitz Nomination

The Senate Foreign Relations East Asian and Pacific Affairs Subcommittee last week considered the nomination of Paul D. Wolfowitz for the position of Assistant Secretary of State for East Asian and Pacific Affairs. Dr. Wolfowitz, who is currently the director of policy planning at the State Department, received the government's Distinguished Honor Award during his tenure at the Arms Control and Disarmament Agency and the Civilian Service Medal for his service in the office of the Secretary of Defense. At the conclusion of the hearing, subcommittee chairman S.I. Hayakawa (R, Calif.) declared that he would recommend that Dr. Wolfowitz's nomination be favorably reported to the Senate floor before final adjournment.

Questions on U.S.-Japan relations focused on the adequacy of Tokyo's defense effort. Responding to Senator Jesse Helms' (R, N.C.) remark that of all the United States' allies, Japan contributes the least to the common defense of the free world, the nominee stressed that Tokyo has played an "enormously supportive role" in Asia and globally in the area of economic assistance. "The United States should push [Japan] hard to fulfill its global responsibilities, . . . [and it appears] its next medium-term defense plan will make a very real contribution to mutual defense," he told the North Carolina Republican. "But our goal is to get [the Japanese] to reach these levels sooner, rather than later." The prospective assistant secretary also rejected Senator Helms' proposition that the bilateral defense treaty should be revised, contending that this pact as it currently stands provides a sound framework that was developed largely with U.S. guidance. "Japan can do more within the confines of the treaty," he maintained. "We only disagree on the pace [of Japan's defense improvements], not what's being done under [the treaty]."

Senator Hayakawa inquired about the nominee's views on the proposal introduced by Senator Carl Levin (D, Mich.), calling on the Japanese government to spend at least 1 percent of its GNP on defense. Mr. Wolfowitz had no objections to the "spirit of the resolution," but maintained that if the two countries were to achieve their common defense goals, it would be far more effective for the United States to make its position in private, while remaining publicly quiet about a matter that is so politically sensitive for our chief Asian ally.

Barbara Wanner

Tokyo Stock Market Hits New High

The Dow Jones average for the first section of the Tokyo stock exchange hit a record high of 8,020.53 on December 6, lagging slightly behind the strong gains shown on the New York and London stock-exchange markets in November. The Tokyo Dow Jones average finished at 7,938 at the end of January 1982, but dropped in the face of the yen's weakness to its lowest level of the year — 6,849 — on October 1. Thereafter it picked up, soaring by more than 1,000 points in November to the December 6 peak, surpassing the previous high of 8,019.14 hit on August 17, 1981.

While the Tokyo stock market has been booming, corporate performance has not been as impressive. Buffeted by the worldwide recession and the yen's depreciation, pretax profits in the first half of fiscal 1982 (April-September) dropped by about 20 percent from the previous six-month period and are likely to remain flat until the end of the fiscal year. Given the severity of the slump, pre-tax profits for fiscal 1982 as a whole are forecast to be down by over 19 percent from the previous year, according to a recent survey by Nihon Keizai Shimbun.

The spurt in the Tokyo stock market has been attributed to monetary factors, including a decline in interest rates and foreign exchange fluctuations, both of which stimulated purchases by foreign investors. The inflow of foreign capital last year consisted of petrodollars, but present investments represent funds from American and European institutional investors. In addition to anticipated gains from the rising yen, these buyers expect capital gains as stable Japanese companies resume their growth. Foreign investors were net sellers for the five months from February to June because of the yen's depreciation and the weak economy, but became net purchasers in September and bought ¥192.4 billion ($785.3 million at current exchange rates) in the month of November.

Owing to recent interest-rate declines and expectations of further monetary relaxation, worldwide stock prices have increased sharply. In Japan, predictions of cuts in short-term and long-term interest rates are widespread. Because the large budget deficits preclude fiscal-policy adjustments, the new Nakasone Cabinet is expected to prefer a relaxation of monetary policy. Though demand by domestic buyers has been weak, the combination of purchases by foreign investors and expectations of a stimulative monetary policy is likely to spur domestic purchases. At the same time, the current strong stock market depends on the positive reaction of foreign investors and expectations of a revival of growth. If the boom is to continue in the new year, the government will have to show some progress in reviving economic activity.

Yoshio Nakamura

Notes

- By unanimous consent, the Senate Foreign Relations Committee on December 14 reported S.Con.Res. 46, introduced by Senator Carl Levin (D, Mich.). This bill, as originally drafted, would have called on the government of Japan to spend at least 1 percent of its GNP on defense. The committee version, however, states that Japan should immediately increase its defense expenditures to the levels required for its forces to deploy fully by 1990 an effective conventional self-defense capability, including the capacity to carry out the 1981 policy enunciated by Prime Minister Suzuki to defend its sealanes to 1,000 nautical miles. Committee staff estimate that between now and the end of the decade, Japan would have to spend between 1.4 and 2 percent of its GNP on defense, which translates into annual real increases of between 10 and 12 percent.

- Japan's general beef import quota for the second half of FY 1982 (October 1982-March 1983) has been set at 57,200 metric tons, or 6,200 metric tons more than the quantity announced for the year-earlier period, while its special beef quota has been maintained at the 7,800-metric-ton level. These quota quantities mean that the Japanese government will fulfill the commitment it made during the Tokyo Round of multilateral trade negotiations to import 135,000 metric tons of beef in FY 1982.

Japan's Beef Import Quota

(in metric tons)

	General Quota				
	First Half	Second Half	Subtotal	Special Quota	Total
FY 1977	35,000	45,000	80,000	12,500	92,500
FY 1978	40,000	55,000	95,000	17,000	112,000
FY 1979	63,000	53,500	116,500	18,000	134,500
FY 1980	64,000	55,000	119,000	15,800	134,800
FY 1981	60,000	51,000	111,000	15,800	126,800
FY 1982	62,000	57,200	119,200	15,800	135,000

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U.S.-JAPAN COMPETITION IN BUSINESS TELEPHONE EQUIPMENT

SUMMARY

The limited success American companies have had in selling telephone equipment to Nippon Telegraph and Telephone Public Corp. has become a symbol in U.S. business and legislative circles of Japan's closed market. It has also turned the spotlight on the participation of Japanese manufacturers in the U.S. telephone equipment market. Nippon Electric Co., Ltd., Fujitsu, Ltd., Oki Electric Industry Co., Ltd., Hitachi, Ltd., Toshiba Corp. and several other Japanese makers have made inroads in the U.S. market for business telephone equipment, mainly by parlaying their expertise in semiconductor and computer technologies to design and manufacture state-of-the-art products that are compact, modular and reliable and that offer customers an excellent price-performance ratio. But they are by no means the main competitors of American Telephone and Telegraph Co. in the private branch exchange and key telephone system market. Moreover, their manufacturing and marketing prowess will be tested over the next few years as deregulation reshapes the business telephone equipment marketplace.

Deregulation Spurs Competition

Until the late 1960s the Federal Communications Commission (FCC) endorsed the tenaciously held position of American Telephone and Telegraph Co. (AT&T) that only telephone instruments and switching equipment owned and supplied by its operating companies could be connected to the Bell System telephone network, which then covered about 84 percent of the telephones in service in the United States. With the landmark Carterfone decision in 1968, however, the FCC began to move in the direction of greater competition and decontrol in the telephone terminal and switching equipment market. That ruling allowed the connection of customer-provided equipment into Bell System lines as long as a protective coupler, rented to the customer by the operating companies, was used.

AT&T defended the interface-device requirement on the grounds that "foreign" equipment would damage the national telephone network. Outside telephone equipment suppliers, claiming that the couplers were hard to obtain and expensive to rent, maintained that the requirement represented AT&T's last-ditch effort to thwart competition in the marketplace. The FCC finally eliminated this barrier to market entry in late 1977 and early 1978 when it expanded the registration program for telephone terminal equipment, initiated in 1974, to include telephone instruments, key telephone systems (KTSs - multi-line telephones that provide pushbutton selection of a specific line from a number of central office lines) and private branch exchanges (PBXs - a switchboard, located on the customer's premises, that connects a common group of trunk lines and provides service to a number of telephone sets). Since then, any equipment that has received FCC type approval can be directly connected to the public-switched telephone network.

The 1968 Carterfone decision triggered an influx of competitors into the market, offering business customers PBXs and key systems that incorporated technical advances not available in the equipment supplied by Western Electric Co., Inc., AT&T's wholly owned manufacturing arm, and that could be purchased as well as leased. In the forefront of the movement were foreign manufacturers like Canada's Northern Telecom Ltd. and Mitel Corp., Hitachi, Ltd., Oki Electric Industry Co., Ltd., Nippon Electric Co., Ltd. (NEC), Fujitsu, Ltd., Iwatsu Electric Co., Ltd., Toshiba Corp. and Nitsuko, Ltd. from Japan, Siemens AG (West Germany), LM Ericsson (Sweden), Plessey Telecommunications Ltd. (United Kingdom) and CIT-Alcatel (France).

The new market opportunities also spawned a number of entrepreneurial American firms, including such current major competitors as Rolm Corp. and TIE/Communications, Inc. Joining these start-up firms and foreign vendors as suppliers to the new end-user market were the established manufacturers of equipment for the nation's independent telephone operating companies — makers like ITT Telecommunications Corp., Stromberg-Carlson Corp. (at that time a General Dynamics Corp. subsidiary) and General Telephone & Electronics Corp. (GTE), then as now the number-two U.S. telephone equipment producer through its Automatic Electric Inc. unit as well as the largest independent telephone company.

Typical of a young market, the interconnect industry, as it came to be known, was initially characterized by fairly high turnover among both manufacturers and distributors. By the late 1970s, though, the industry had stabilized, aided in part by the FCC's registration program. A group of large, financially strong national distributors had emerged to back the growing number of local sales and service centers. Upstart makers like Rolm had matured, and major foreign manufacturers, including Northern Telecom, Mitel, Siemens, Oki, Hitachi, Fujitsu and NEC, were increasingly supplying the market from onshore production facilities.

Chipping Away at AT&T's Market

Even during the interconnect industry's shakedown phase, the new competitors were quickly building share in the business market, particularly in the market for PBXs. Only ten years after the Carterfone decision, interconnect vendors had captured about 10 percent of the installed PBX base, according to recent estimates by the North American

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Telephone Association (NATA). The interconnect industry's trade association placed the Bell System's share of 1977 PBX lines in service at 78 percent and that of independent telephone companies at 12 percent. (NATA's data understate market penetration by interconnect manufacturers since the figures are based on what type of company installs the equipment — Bell System operating company, independent operating company or non-telephone company installer, not who manufactures it.)

These initial interconnect inroads were the result of a straightforward marketing strategy: offering offices, retailers, factories, motels and hotels, hospitals, educational institutions and other medium and large concerns electronic switchboards. While more expensive than the electromechanical systems then being manufactured by Western Electric, the new systems had telephone-calling features not technically obtainable with the older hardware — features like simplified dialing, music on hold, call forwarding, toll restriction and paging. Moreover, electronic PBXs were cheaper to install than electromechanical ones, and they could be purchased outright, an important consideration for customers that expected to keep their equipment.

AT&T finally unveiled the Dimension family of electronic PBXs in 1976, but by that time several of Western Electric's interconnect competitors had already introduced the next generation of switchboards to the American market. Unlike the Dimension and other analog electronic PBXs, which handle only the continuous-wave audio tones of voice conversations, the switches announced in the 1975-76 period by Rolm, Northern Telecom and American Telecom Inc. (Fujitsu's U.S. manufacturing and marketing subsidiary) switch signals in the form of digital pulses or bits of information. This gives them the capability to transmit and receive data in addition to carrying telephone calls and positions digital PBXs to be the communications link in the automated office of the future.

While the arrival of digital PBXs had long-term implications for AT&T's product-development and marketing strategies, the Bell System faced a more immediate problem in the late 1970s: how to get its massive base of electromechanical PBX customers to trade up to the Dimension. The marketing tactic AT&T hit on in 1979 was to hike lease rates on the older-generation equipment by up to 70 percent. The company recognized that its "migration strategy" could push customers right into the arms of Mitel, NEC Telephones, Inc., Oki Electronics of America, Inc., Hitachi America Inc., Siemens, ITT, Stromberg-Carlson and other interconnect makers of analog PBXs or even into the arms of digital switchboard makers, including by then GTE and Harris Corp. But AT&T also knew that the interconnect industry had neither the production capacity nor the installation capability to meet the wave of demand its migration strategy would create.

AT&T's migration strategy did work, but the cost in terms of market ceded to the interconnect industry was probably higher than the company anticipated. From a 78-percent stake in 1977, the Bell System's share of PBX lines in operation fell to 70 percent in 1981, NATA estimated, while interconnect vendors upped their share of the expanding market to 19 percent. Even more telling of the erosion in the Bell System position are data compiled by the Eastern Management Group on 1981 shipments of PBX lines. According to the Morris Plains, New Jersey industry tracker, AT&T accounted for only 38.5 percent of the PBX lines shipped that year — a far cry from its 80-percent-plus share of yearly shipments in the 1960s. The big interconnect winner in 1981 was Mitel, which garnered 14.3 percent of the market with its line of relatively small SX analog switches. Close behind was Rolm with a 14-percent share for its CBX family of digital PBXs, trailed by Northern Telecom with a 9.5-percent stake for the SL-1 digital switch. The other major shippers of PBX lines in 1981, Eastern Management Group estimated, were GTE (5 percent), American Telecom (4.6 percent), NEC Telephones (4.4 percent) and Harris (3.9 percent).

Although Rolm and Northern Telecom have prospered by targeting their increasingly sophisticated digital systems at customers requiring PBXs with more than 750 lines, AT&T has proved to be most vulnerable to interconnect competition in the small (under 250 lines) PBX market, if only because low-end switchboards make up the majority of the installed base. This is the market segment Mitel has cultivated with so much success. It is also where American Telecom's Focus series of digital equipment and the analog NEAX 12 by NEC Telephones have achieved sales gains, helped in both cases by the systems' modular construction, which makes expansion easy.

The encroachment of electronic key telephone systems (EKTSs) and AT&T's own Horizon hybrid key/PBX system into the market served by small-configuration PBXs has also apparently caused PBX market-share problems for the Bell System. Customers replacing electromechanical PBXs with 60 to 100 lines in reaction to AT&T's migration strategy have been the main market for hybrids and large EKTSs like NEC Telephones' Electra 100, Iwatsu America Inc.'s top-of-the-line Omega III model and Toshiba America, Inc.'s Strata III. For these businesses, hybrids and EKTSs offer many of the features of electronic PBXs but at a lower cost, plus the relative simplicity of key system usage.

Despite their sales success with large EKTSs and the availability of a broad line of smaller EKTSs, interconnect manufacturers have had a tougher time building market share in key systems than in PBXs. According to NATA's data, interconnects were only able to raise their share of the installed base of stand-alone key systems from under 4 percent of the lines in operation in 1977 to 9 percent five years later. These five points did come out of the Bell System's market, but the operating companies still had 74 percent of the installed base in 1981. Moreover, AT&T's share of 1981 shipments was not too far under that figure, the Eastern Management Group calculated.

To a large extent, AT&T's staying power in the key system market has reflected a mismatch between what customers forced to migrate from the ubiquitous 1A2 electromechanical key system want for a replacement and the products offered by many interconnect vendors, particularly the American units of Japanese companies. Most businesses in this 2-million-customer pool still have a need for a low-cost, no-frills, small-configuration (under 12 extensions) system. They are therefore moving to the 1A2's upgrade, the Comkey 416, or to similar basic equipment made by GTE, TIE/Communications or ITT, the Bell System's closest competitors in the key system field. Some 1A2 customers of course are trading up to the small- and medium-capacity EKTS market, where NEC Telephones (Electra 28) and Iwatsu America (Omega III Models ET-816 and ET-1632) are well represented, or even to hybrids like AT&T's Horizon.

An Industry in Transition

Interconnect makers continued to chip away at the Bell System's installed base of business telephone equipment in 1982, upping their share of the PBX market by two percentage points to a projected 21 percent and increasing their stake in the key systems base by about the same margin to an estimated 11 percent. These gains, significant in themselves, are even more noteworthy because they occurred in a marketplace characterized by NATA and other industry observers as the most confused since the Carterfone decision in 1968. The economy's weak performance and the uncertain outlook for 1983 contributed to the disorder, as did AT&T's migration strategy, but the overriding factors were the impending deregulation of AT&T's new telephone terminal equipment business and AT&T's divestiture of its Bell System operating companies.

Deregulation — ordered by the Federal Communications Commission in an April 1980 ruling — and divestiture — the result of an August 1982 court-approved settlement agreement between the Justice Department and AT&T — represent two different solutions to the competitive problems caused by AT&T's vertical integration, particularly its ownership of local telephone companies. Their impact, though, is the same: a complete restructuring of the telecommunications business over the next several years.

Highlighting the events that will reshape the market in which manufacturers and vendors of telephone equipment compete are the following developments:

- As of January 1, 1983, AT&T must offer all new telephone equipment through a separate, unregulated subsidiary. The new unit, American Bell, Inc., is free to sell or lease PBXs, key systems, telephone instruments and any new products AT&T might introduce for business or residential customers, at prices not subject to tariffs or government review.

- Starting on the same date, Bell System operating companies will no longer provide new customer-premises equipment. They can continue to offer items from inventory and recycle leased equipment returned by customers. Moreover, with the permission of state utility commissions, the operating companies can sell off equipment installed before January 1, 1983.

- On January 1, 1984, as now scheduled, AT&T will spin off its 22 local operating companies into seven regional holding companies. Remaining with AT&T will be Western Electric, Bell Telephone Laboratories, Inc., the Long Lines Department (which will continue to operate the long-distance network), AT&T International Inc. and American Bell. At that time, all of the Bell System's installed customer-premises equipment — including an estimated 105,000 PBXs, 2.5 million stand-alone key systems and 147 million residential and business telephone instruments -- will be transferred from the operating companies to American Bell.

- After January 1, 1984, the divested Bell System operating companies will have the option to market, but not manufacture, new customer-premises equipment on an unregulated basis.

Interconnect manufacturers and industry analysts agree that deregulation and divestiture should enhance marketing opportunities for the interconnect industry over the long term. In the short run, though, these far-reaching actions could cause problems. Interconnect makers have already experienced the first fallout since the operating companies, no longer able to handle new customer-premises hardware, have stopped buying PBXs, key systems and telephone sets from interconnects, affecting a small but not insignificant part of their trade. In addition, at least some potential interconnect business customers are postponing buying decisions until they find out whether the Bell System will be allowed to sell the installed base of end-user equipment during the year-long transition period before divestiture.

What makes these short-term sales problems bearable for interconnect vendors is the prospect of the divested Bell System operating companies becoming marketing outlets for PBXs, key systems and telephone sets. Interconnect suppliers concede that the local carriers will retain close links with Western Electric after divestiture, particularly in the area of heavy network equipment like central office switches, but they expect the spun-off companies to seek out non-AT&T sources of customer-premises equipment. At the same time, independent manufacturers recognize that how quickly new sales opportunities materialize for them depends on how many of the divested companies re-enter the end-user equipment market after January 1, 1984 as well as how fast those that do can establish engineering and procurement offices to evaluate and buy non-Western Electric products and build up marketing and support staffs.

The other big competitive question mark for the interconnect industry is American Bell. Its impact on the market hinges on several factors, including pricing policies, but near the top is how close the AT&T unit is to introducing new Western Electric customer-premises equipment, particularly the code-named Antelope digital PBX, or announcing enhancements for the existing line of business equipment made by Western Electric. Whether the manufacturing arm can bring its costs in line with competitors' is another key variable, as is whether Bell Labs can compress its long product-development cycle.

Balancing these questions about American Bell's competitive position are several knowns. The company has built up a business sales force faster than expected, allowing it to get off to a running start on January 1. In addition, the line of Western Electric business equipment American Bell will initially market is rated excellent in terms of reliability. The new subsidiary will also inherit AT&T's reputation for fast service and maintenance — an important marketing advantage since surveys show that service and maintenance are far and away the top considerations for business buyers.

Shakeout in the Market?

Many telecommunications industry analysts expect the confusion caused by deregulation and divestiture to trigger a shakeout among suppliers of customer-premises equipment. For vendors of PBXs, the realignment could be close at hand. There are now at least 30 makers in the market in addition to AT&T, offering more than 150 models. Newcomers include recent entrants from the data-processing field like Datapoint Corp. and start-ups backed by large corporations, such as Exxon Corp.'s Intecom and United Technologies Corp.'s Lexar. Waiting in the wings, moreover, is International Business Machines Corp., which signed an agreement on digital switches with Mitel last summer.

Industry observers, pointing to the mounting pricing pressures in the industry, maintain that the marketplace cannot and will not support the growing list of PBX manufacturers. To ensure that they are among the survivors, companies with entrenched positions to defend — Northern Telecom, Rolm and GTE — have tried to strengthen their hold over the past year by introducing new products or enhancements to existing lines. Second-tier makers jockeying for position have adopted the same tactic. Mitel, for example, added a digital PBX to its line of analog switchboards, while American Telecom and Harris expanded their digital offerings. For its part, NEC Telephones introduced enhancements for the digital NEAX 22 series.

Where all this positioning leaves makers still scrambling for a foothold in the market is unclear. Among these makers are Oki Electronics of America, which manufactures the Discovery III line of analog PBXs as well as the Spectrum digital series, and Hitachi America, which recently started shipments of its digital entry, the Digital Communications Controller, plus such other makers as Siemens, ITT and United Technologies' Stromberg-Carlson. If, however, analysts are right that survival in the American PBX market depends largely on the ability to make continuing technological advancements, these two U.S. subsidiaries of Japanese companies and American Telecom and NEC Telephones should be among the winners.

Unlike the PBX market, the market for key telephone systems, while crowded, does not appear headed for a shakeout. What does concern some industry observers, though, is the recent flurry of feature-laden hybrid key systems and electronic key systems, targeted primarily at the low-end key system customer. Equipment like Iwatsu America's

Omega IV Super Key, the CS 150 series by Hitachi America, NEC Telephones' Electra 16/48 or the Toshiba America Strata VI, they argue, is too expensive, complex and difficult to maintain for the small key system user. Still, other industry watchers maintain that sophisticated hybrids and EKTSs are critical to the continuing ability of these four firms to capture a chunk of the replacement market for small-configuration PBXs.

For further information, contact Susan MacKnight.

* * * * * *

Table 1: U.S. Apparent Domestic Consumption of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Total Shipments	$5,843,874	$6,433,018	$7,498,735	$8,479,841	$8,706,672
Total Exports	156,372	297,800	344,200	428,751	523,523
Total Imports	102,894	189,228	265,765	343,438	403,627
Trade Balance	53,478	108,572	78,435	85,313	119,896
Apparent Domestic Consumption	5,790,396	6,324,446	7,420,300	8,394,528	8,586,776
Exports as Percent of Apparent Domestic Consumption	2.7%	4.7%	4.6%	5.1%	6.1%
Imports as Percent of Apparent Domestic Consumption	1.8%	3.0%	3.6%	4.1%	4.7%
Exports to Japan as Percent of Apparent Domestic Consumption	*	0.1%	0.1%	0.1%	0.1%
Imports from Japan as Percent of Apparent Domestic Consumption	0.6%	1.2%	1.2%	1.5%	2.2%

*Less than 0.05 percent.

Source: Derived from following tables.

Table 2: U.S. Shipments of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981(p)
Telephone Switching and Switchboard Equipment	$2,820,472	$3,230,521	$3,653,256	$4,254,301	$4,257,694
Private Branch Exchange Equipment	370,752	531,386	651,270	852,929	1,141,872
Common Carrier					
Manual	315,798	406,658	27,634	16,889	27,485
Electromechanical			41,457	26,788	22,246
Electronic			341,513	434,465	651,433
Private Carrier					
Manual	54,954	124,728	8,985	3,763	3,209
Electromechanical				7,913	4,893
Electronic			231,681	363,111	432,606
Central Office Switching Equipment	1,628,666	1,693,896	1,873,088	1,943,927	1,766,999
Local Switching	1,444,815	1,457,670	1,612,111	1,594,694	1,461,430
Toll Switching	183,851	236,226	260,977	349,233	305,569
Other Telephone Switching and Switchboard Equipment	821,054	1,005,239	1,128,898	1,457,445	1,348,823
Telephone Instruments	673,903	823,935	965,178	857,669	987,943
Pushbutton Type	341,295	380,963	519,410	476,300	583,206
Dial Type	151,461	152,063	159,126	135,806	105,688
Other (call directors, key sets and special purpose)	181,147	290,909	286,642	245,563	299,049
Other Telephone and Telegraph Equipment (excluding telegraph, teleprinter and carrier equipment)	2,349,499	2,378,562	2,880,301	3,367,871	3,461,035
Total Shipments	5,843,874	6,433,018	7,498,735	8,479,841	8,706,672

Source: U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports: Selected Electronic and Associated Products, Including Telephone and Telegraph Apparatus (MA-36N)

Table 3A: Total U.S. Exports of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Telephone Switching and Switchboard Equipment and Parts	$9,187	$94,624	$117,377	$189,165	$261,254
Telephone Instruments	6,293	10,285	17,434	23,939	26,813
Other Telephonic Apparatus and Instruments and Parts	140,892	192,891	209,389	215,647	235,456
Total Exports	156,372	297,800	344,200	428,751	523,523

Table 3B: U.S. Exports of Telephone Terminal and Switching Equipment to Japan, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Telephone Switching and Switchboard Equipment and Parts	$0	$535	$364	$704	$3,054
Telephone Instruments	157	121	314	885	1,192
Other Telephonic Apparatus and Instruments and Parts	1,885	3,113	4,887	4,527	2,714
Exports to Japan	2,042	3,769	5,565	6,116	6,960

Source: U.S. Department of Commerce, U.S. Exports (FT 410)

Table 4A: Total U.S. Imports of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Telephone Switching and Switchboard Equipment and Parts	$35,178	$77,025	$144,453	$180,171	$148,885
Telephone Instruments	8,170	37,239	34,128	51,969	127,651
Intercom Systems	5,977	7,491	5,928	6,680	7,088
Other Telephonic Apparatus and Parts	53,569	67,473	81,256	104,618	120,003
Total Imports	102,894	189,228	265,765	343,438	403,627

Table 4B: U.S. Imports of Telephone Terminal and Switching Equipment from Japan, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Telephone Switching and Switchboard Equipment and Parts	$13,998	$34,740	$47,966	$66,793	$71,764
Telephone Instruments	4,906	13,141	10,577	24,290	69,296
Intercom Systems	2,700	4,623	2,953	2,628	3,388
Other Telephonic Apparatus and Parts	15,256	24,182	24,008	28,435	46,835
Imports from Japan	36,860	76,686	85,504	122,146	191,283

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

Table 5: Japan's Apparent Domestic Consumption of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars)

	1977	1978	1979	1980	1981
Total Production	$996,495	$1,475,699	$1,572,100	$1,611,498	$1,900,408
Total Exports	218,471	369,878	359,585	380,746	617,859
Total Imports	5,095	7,314	8,728	18,471	29,916
Trade Balance	213,376	362,564	350,857	362,275	587,943
Apparent Domestic Consumption	783,119	1,113,135	1,221,243	1,249,223	1,312,465
Exports as Percent of Apparent Domestic Consumption	27.9%	33.2%	29.4%	30.5%	47.1%
Imports as Percent of Apparent Domestic Consumption	0.7%	0.7%	0.7%	1.5%	2.3%
Exports to the United States as Percent of Apparent Domestic Consumption	6.1%	7.7%	7.4%	9.9%	14.8%
Imports from the United States as Percent of Apparent Domestic Consumption	0.3%	0.4%	0.5%	0.9%	1.8%

Source: Derived from following tables.

Table 6: Japan's Production of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars*)

	1977	1978	1979	1980	1981
Telephone Instruments	$107,590	$149,971	$173,652	$182,447	$186,202
Dial Type	57,611	66,161	72,438	66,098	65,820
Pushbutton Type	6,834	19,241	28,616	27,022	29,586
Other	43,146	64,569	72,597	89,327	90,795
Telephone Switching and Switchboard Equipment	674,642	985,896	996,573	977,957	1,109,658
Electronic Switching Equipment	219,031	388,999	497,750	547,826	687,689
Crossbar Switching Equipment	410,335	531,268	411,221	350,900	343,616
Other Switching Equipment and Attachments	45,276	65,629	87,602	79,232	78,353
Other Telephonic Equipment	214,264	339,831	401,876	451,094	604,548
Key Telephone Systems	144,605	250,204	270,690	299,938	434,497
Telephone Answering Equipment	n.a.	n.a.	27,147	31,565	43,448
Other Telephonic Attachment Equipment	11,095	17,658	18,541	23,688	30,312
Intercom Systems	29,221	40,377	43,429	55,085	52,716
Other Telephone Equipment	29,343	31,591	42,069	40,818	43,575
Total Production	996,495	1,475,699	1,572,100	1,611,498	1,900,408

*The following average annual exchange rates, which reflect the midpoint on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1977, ¥268.51; 1978, ¥210.44; 1979, ¥219.14; 1980, ¥226.74; and 1981, ¥220.54.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics

Table 7A: Japan's Total Exports of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars*)

	1977	1978	1979	1980	1981
Crossbar Telephone Exchanges	$75,656	$128,923	$75,590	$55,464	$83,309
Electronic Telephone Switchboards and Exchanges	10,911	37,520	76,767	80,280	107,944
Other Telephonic Switchboards and Exchanges	2,996	4,698	3,334	8,797	12,572
Desk and Wall Telephone Instruments	12,026	9,546	13,335	24,537	34,953
Other Telephone Instruments	14,208	40,182	46,455	49,652	65,199
Intercom Systems	15,038	15,461	14,871	19,409	22,580
Other Telephonic Apparatus	2,858	5,587	4,643	5,781	9,550
Parts	84,778	127,961	124,590	136,826	281,752
Total Exports	218,471	369,878	359,585	380,746	617,859

Table 7B: Japan's Exports of Telephone Terminal and Switching Equipment to the United States, 1977-81

(in thousands of dollars*)

	1977	1978	1979	1980	1981
Crossbar Telephone Exchanges	$7,542	$4,942	$2,183	$1,357	$505
Electronic Telephone Switchboards and Exchanges	5,054	5,618	7,943	22,206	14,517
Other Telephonic Switchboards and Exchanges	1,694	2,552	1,769	2,224	10,012
Desk and Wall Telephone Instruments	3,078	2,879	4,819	8,242	14,838
Other Telephone Instruments	5,151	17,612	24,829	32,171	42,144
Intercom Systems	1,727	2,210	2,374	2,821	4,104
Other Telephonic Apparatus	206	1,047	757	1,605	5,294
Parts	23,361	48,244	45,375	53,501	102,987
Exports to the United States	47,813	85,104	90,049	124,127	194,401

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1977, ¥270.42; 1978, ¥212.18; 1979, ¥217.47; 1980, ¥227.67; and 1981, ¥219.90.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 8A: Japan's Total Imports of Telephone Terminal and Switching Equipment, 1977-81

(in thousands of dollars*)

	1977	1978	1979	1980	1981
Electronic Telephone Switchboards and Exchanges	$347	$715	$620	$2,834	$3,616
Other Telephonic Switchboards and Exchanges	349	117	39	80	208
Other Telephonic Apparatus	795	1,293	1,965	1,856	1,889
Parts	3,604	5,189	6,104	13,701	24,203
Total Imports	5,095	7,314	8,728	18,471	29,916

Table 8B: Japan's Imports of Telephone Terminal and Switching Equipment from the United States, 1977-81

(in thousands of dollars*)

	1977	1978	1979	1980	1981
Electronic Telephone Switchboards and Exchanges	$281	$650	$518	$598	$672
Other Telephonic Switchboards and Exchanges	1	25	14	1	0
Other Telephonic Apparatus	249	340	1,560	1,229	981
Parts	1,958	3,771	3,948	9,891	22,155
Imports from the United States	2,489	4,786	6,040	11,719	23,808

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1977, ¥270.53; 1978, ¥212.17; 1979, ¥217.46; 1980, ¥227.85, and 1981, ¥219.94.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

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JAPAN'S RICE POLICY

SUMMARY

The food control system, which was instituted to assure stable supplies of food for Japan, has been in existence without major changes for 40 years. It now plays a role as a protective device for farmers and, as one of the major causes of the budget deficit, has come under re-examination from government and private-sector analysts. Attempts to justify the high costs of protection cannot blur the fact that these measures inhibit productivity and the efficient development of agriculture and are costly to consumers and taxpayers alike. A further problem is that the rice price policy does not encourage people to farm full time, but rather unnecessarily extends the tenure of part-time farmers.

Despite mounting foreign pressure to liberalize imports of agricultural products and rising domestic demands to reduce the widening budget deficit by curtailing financial assistance to farmers, the government increased rice support prices in 1982 under pressure from the Liberal Democratic Party. As long as politics dictate agricultural policy, this sector will not be competitive and the goal of food self-sufficiency will only be obtained at high costs. It is time to recognize that a new agricultural policy is essential.

Introduction

In recent years, Japan's agricultural sector has come under increasing attack from domestic and foreign critics who charge that government policies on food grains have led to high consumer prices, incurred large budgetary costs and restricted imports. While pressure from abroad to liberalize imports of beef and citrus has intensified in recent months, the protection afforded an inefficient agricultural sector has simultaneously triggered the censure of domestic business and labor groups.

To alleviate rising tensions over agricultural policy, the Ministry of Agriculture, Forestry and Fisheries (MAFF) commissioned a study by the Agricultural Administration Council covering medium-term programs to modernize the sector. The subsequent report, "Directions of Agricultural Policy in the 1980s," recommended improvements in current programs designed to increase production of wheat, soybeans and other commodities and, at the same time, urged that MAFF attempt to restructure rice production and consumption. There is widespread agreement that with continuing surpluses of rice, an alternative should be found to the system under which MAFF's Food Agency buys most of the crop at high prices and adjusts resale (wholesale) prices. Although the government, saddled with excess inventories, has instituted a diversion program to reduce rice acreage, growers' demands for price increases have continued unabated, resulting in internationally high rice prices. This report will analyze the pricing process and its impact on producers as well as its effects on the economy.

Historical Background

Despite various measures to encourage the consumption of rice, the MAFF reports that per-capita consumption has slipped steadily. Rice consumption in FY 1981 totaled 11.1 million metric tons, a decline of 79,000 metric tons over the previous fiscal year. Per-capita consumption of rice was 77.8 kilograms, 1.4 percent below FY 1980's level and about two-thirds of peak consumption. At the same time, rice yields have risen due to improvements in technology and infrastructure, with average output rising from 371 kilograms per 10 ares (10 ares equal one-tenth of a hectare) in 1960 to 471 kilograms in 1980, exacerbating the problem.

Through the Food Control Law of 1942, the government has had the authority to purchase, sell and price imported and domestic food grains. This law has remained largely unchanged for more than 40 years, despite the dramatic growth of Japan's economy. As originally instituted, the system provided for quantitative control of rice production through the government's authority to oversee rice distribution. The government purchased all the rice produced by farmers except for certain on-farm requirements and allocated distribution according to a formula. Therefore, rice was not sold outside of government channels, nor was its price subject to supply and demand.

The rationale for this policy in wartime and during the postwar period of food shortages was clear: rice was in short supply and food self-sufficiency was vital. As the supply-demand situation eased, however, the practice of purchasing all the rice grown by farmers began to produce surpluses. In 1955 the government changed the system, replacing fixed quotas with voluntary sales. But because the government controlled distribution and regulated the price of rice, there was no legal marketing of rice outside of government channels. Since growers had to dispose of stocks somehow, the government had to turn a blind eye to the sale of rice on the black market — a change acknowledged institutionally when unregulated rice sales were introduced in 1969 and limits were imposed two years later on the amount of rice the government would buy from farmers. Farm groups were strongly opposed to the cap on purchases, but the government's goal was to balance a stable minimum supply against budgetary considerations.

The current system aims at indirect control through price supports and limited purchases by the government. This goal will prove difficult to achieve, since MAFF's

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medium-term supply-demand outlook predicts that improving yields and declining consumption will continue to 1990, compelling the government to design programs to reduce output.

Increases in the Rice Price, 1982

The process of establishing purchase (support) and resale prices for rice is highly sensitive politically. First, the growers' associations, of which Nokyo is the largest, present a suggested price level. At the same time, the government asks the Rice Price Council to make a recommendation on the producer price. Political considerations, including the considerable clout of the rural sector, come into play, and at length a decision is reached by the government and the Liberal Democratic Party (LDP). When the budget is drawn up, the Rice Price Council recommends a resale price, intended to keep the price low and encourage consumption. The final pricing decision reflects the strength of the farm constituency as much as the actual budgetary situation.

In 1982, farmers' associations presented a different formula, which was said to take into account the rising costs of the rice subsidy program. They proposed a 4.37-percent hike based on wage and price increases, instead of applying a production costs-plus-compensation base, which would have upped the price 29.2 percent. They further demanded the following adjustments: the maintenance of present quotas on imports of agricultural products; expansion of the land under cultivation to enhance productivity and lower production costs; a long-term land improvement plan; help in combining small fields into large farms; funds for research and development on high productivity technology and plant breeding; a freeze on rice land diversion acreage; development of industrial uses for rice; and the retention of the food control system. In other words, the growers decided to opt for a more realistic price level and wide-ranging agricultural improvement programs in a bid to enlist public support.

This theme was repeated at a demonstration called before the annual July meeting of the Rice Price Council. At what had come to be an annual show of strength, only 5,000 farmers appeared -- half the number in years past -- in a move that was designed to suggest negotiation instead of confrontation. But when MAFF Minister Kiichiro Tazawa asked the council to retain the 1981 producer price, an opposition group of farmers resigned and walked out of the meeting. Despite a later, more realistic request from the growers, the council refused to reconsider its position of no change in the price.

On July 16, however, just after the council meeting, a contingent of LDP members from agricultural constituencies succeeded in passing a resolution calling on the government to raise the support price to a level that was satisfactory to the growers and to subsidize sales of rice outside of government channels. Negotiations continued until the early morning hours of July 22 when agreement to raise the producer price by 1.1 percent was reached. In exchange, government negotiators won recognition of their stance that structural changes, nor higher prices, were the key to the enhanced international competitiveness of Japan's agricultural sector, the continued independence of Japan's farmers and a secure food supply. In a glum assessment of the decision, Toshiwo Doko, chairman of the Government Administrative Reform Commission and an advocate of holding the line on rice prices, said that the lack of public support for reducing government expenditures threatened the future course of administrative reform.

In the budget talks, the Ministry of Finance endorsed the government's contention that the price support system produced unacceptably large fiscal deficits and necessitated an increase in the retail price. MAFF, however, anxious to keep prices low and encourage rice consumption, called for a retention of low market prices. Because three consecutive years of poor rice crops and a scaled-back rice land diversion program for FY 1983 are expected to reduce budgetary outlays, MAFF's position ultimately prevailed.

Economic Impact of the Rice Price Policy

Impact on Producers — The food control system has held rice prices artificially high, which in turn has encouraged farmers to increase production. Higher yields and firm prices have led to continuous improvements in rice production and more mechanization, enhancing land and labor productivity. The subsidies have also served as an income transfer to farmers, creating social and economic parity and providing strong support for the Liberal Democratic Party.

But purchasing rice surpluses has cost taxpayers and consumers dearly, and it has forced the government to initiate programs to divert rice land to other uses and to dispose of surplus stocks through exports and industrial and feed usage, all of which have provoked trade frictions with the United States.* As a result of the price support system, marginal farmers — that is, small-scale and part-time operators with less than 1 hectare in rice cultivation — comprised 77 percent of all Japanese rice growers in 1980.

Although the resale price is set below the support price, the differential between domestic and world rice prices is striking. For example, in 1981, Japanese prices were four times higher than U.S. levels and more than six times higher than Thailand's price. With such a cost disadvantage, Japanese rice is not internationally competitive. It is therefore important to consider whether the costs of the program can be justified on the grounds that it is necessary to redistribute income to the rural sector in spite of the program's inefficiencies.

Impact on Distribution — The distribution of rice is handled by a network of 334 wholesalers and 63,800 retailers. The government-controlled system is archaic and rigid and has stymied marketing-improvement efforts. Replacing the current rice distribution system with a more broadly competitive one is essential, at least at the retail stage.

Impact on Consumers -- During the oil crisis of 1973, when prices of other agricultural products, such as wheat and soybeans, soared, the price of rice remained stable. While this has been desirable, other aspects of the rice subsidy program have had a negative influence. The swollen deficit in the Food Control Account for rice is a burden to consumers, who must pay both high retail prices as well as high taxes to maintain these subsidies. Moreover, consumers are dissatisfied with the rice sold by the government and prefer a higher quality. All of this suggests that the elimination of government controls once the rice has been sold to the wholesaler would introduce a favorable competitive situation; it would reduce retail prices and lighten the tax burden.

Expenditures for the Food Control System

As noted earlier, the rice support price for 1982 was raised by 1.1 percent, but to encourage consumption the resale price was not increased. The gap between the two prices therefore widened from 4.2 percent to 5.4 percent (Table 1), despite government assurances in 1976 that the spread would be eliminated within five years. In the FY 1983 budget, the costs of subsidizing rice production as well as domestic output of wheat and barley will amount to 11.3 percent of total agricultural expenditures — lower than originally projected because of an increase in the wheat resale price.

On top of outlays for the subsidy program, the costs of disposing of surplus rice in FY 1983, the last year of a five-year plan to eliminate 6.5 million metric tons of excess stocks, are budgeted at ¥165 billion (about $0.7 billion at an exchange rate of ¥230=$1.00). The total cost of this program is pegged at ¥2.2 trillion (nearly $9.6 billion). Moreover, since 1971 the government has instituted three diversion programs to reduce the production of rice. The current program, the Paddy Field Utilization Reorientation Program (1978-87), aims at diverting over 20 percent of total rice fields to alternative crops like wheat and soybeans. To date, the government has spent ¥2.8 trillion ($12.2 billion) on diversion incentives and has allocated ¥340 billion (almost $1.5 billion) for this purpose in the FY 1983 budget.

As shown in Table 2, the domestic Food Control Account has contracted as the difference between the support price and the resale price has narrowed, but expenditures for surplus rice disposal and rice land diversion have increased. Consequently, total outlays for rice programs have been around ¥1 trillion (over $4.3 billion) a year, or 25 to 40 percent of total agricultural expenditures, reducing sharply the funds available for other programs which aim at structural changes in agriculture.

Conclusion

In reality, both farmers and MAFF officials are convinced that the high costs of the rice subsidy program are a built-in feature of a land-poor country like Japan, and this theme underlies discussions on agriculture policy. One solution would be to encourage large-scale farming. According to MAFF, growers with less than 0.3 hectare spend more time on farming and make less money than growers with more than 3 hectares. Annual profits per 10 ares of rice fields average ¥94,111 ($409) for over 3 hectares, ¥67,184 ($292) for growers with 0.5 to 1 hectare, and ¥46,014 ($200) on plots smaller than 0.3 hectare. Therefore, as long as agricultural policy aims at protecting inefficient, part-time farmers, large-scale farming will be retarded and lower costs and prices will remain elusive. The current food control system is responsible for the high cost and low productivity of the agricultural sector. If subsidies to part-time, small-scale farmers are withdrawn, full-time farmers will take over production, and economies of scale will reduce production costs. Once rice prices decline, the output of other crops, such as wheat and soybeans, will rise without the necessity of costly subsidies. So, too, will the food self-sufficiency level.

*See William T. Coyle, Japan's Rice Policy (Washington, D.C.: U.S. Department of Agriculture, July 1981).

For further information, contact Yoshio Nakamura.

* * * * * * *

Table 1: Government Purchase and Resale Prices for Rice, 1975-1982

(yen/60 kg)

Year	Purchase Price	Resale Price	Spread Between Purchase and Resale Prices
1975	¥15,570	¥12,205	¥3,365
1976	16,572	13,451	3,121
1977	17,232	14,771	2,461
1978	17,251	14,771	2,480
1979	17,279	15,391	1,888
1980	17,674	15,891	1,783
1981	17,756	16,391	1,365
1982	17,951	17,033	918

Source: Ministry of Agriculture, Forestry and Fisheries

Table 2: Japan's Agricult

(in billi

Fiscal Year	Total Expenditures for Agriculture	Food Control Prog		
		Total	Price Support Programs	Surplus Disposa Program
1975	¥2,176	¥909	¥753	¥59
1976	2,413	909	770	53
1977	2,640	824	698	33
1978	3,057	843	603	29
1979	3,463	896	634	33
1980	3,584	956	610	42
1981	3,693	995	567	85
1982	3,701	990	498	142
1983*	3,607	913	407	165

*Projected.

Source: Ministry of Finance

re Budget, FY 1975-FY 1983

s of yen)

ams	Percent of Agriculture Budget Spent on Price Support Programs	Percent of Agriculture Budget Spent on Total Food Programs
Diversion Programs		
¥97	34.6%	41.7%
86	31.9	37.7
98	26.4	31.4
211	19.7	27.6
228	18.3	25.9
303	17.0	26.7
343	15.4	26.9
350	13.5	26.8
341	11.3	25.3

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JAPAN · ECONOMIC · INSTITUTE
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REPORT

No. 3A January 21, 1983

THE NAKASONE ELECTION

SUMMARY

There is a widely held view that the nature of the Japanese system means that as long as the Liberal Democratic Party (LDP) is in power, Japan's policies will remain the same no matter who is prime minister. This is certainly a valid argument, considering the fact that the LDP has ruled the country since 1955 and has built a powerful network within the bureaucracy and the business community. With the resignation of Prime Minister Zenko Suzuki last fall, however, the political picture began to shift. The new prime minister, Yasuhiro Nakasone, has introduced a political style that the old guard is unaccustomed to, and has addressed a number of thorny domestic and foreign policy issues. This paper will examine the politics leading up to Mr. Nakasone's victory, his choice of Cabinet ministers, and the problems facing his government. The opinions in this report are those of the author.

Background

Prime Minister Zenko Suzuki, who displayed remarkable resilience for more than two years, surprised the nation with his announcement that he would not seek re-election. As prime minister, although he stumbled on a few diplomatic issues, Mr. Suzuki was given credit for cementing party unity, balancing factional appointees, and launching a vigorous campaign to streamline the government bureaucracy and reduce expenditures.[1] Few doubted that he would be re-elected president of the LDP in the November party election — a post which is tantamount to the premiership. Apparently, though, the prime minister felt that mounting criticism of both his domestic economic policies and his alliance with the powerful Tanaka faction posed the risk that his government was not likely to survive a second term. In the ensuing political vacuum (see JEI Report No. 43B, November 5, 1982), none of the factions had enough votes to assure their success. Senior party leaders, who anticipated a fierce campaign and an enormous outlay of funds, hesitated to call a primary election. The possibility of the campaign's turning vicious also seemed likely, which would, in turn, invite public criticism of the party leadership. And they feared that the schism might weaken the party, leaving it vulnerable in the elections scheduled for 1983.

LDP politics are overwhelmingly influenced by the factional power balance within the party.[2] There are at present five major factions — none of which is dominant. Alliances on individual issues are therefore indispensable to assure successful results. When the issue is the succession to the premiership, the factional interaction becomes particularly unpredictable and intense. Four politicians readied primary campaigns:[3] Toshio Komoto, director general of the Economic Planning Agency and leader of his own faction was a front runner; Yasuhiro Nakasone, leader of his own faction and director general of the Government Management Agency was a central figure in the government reform campaign; Shintaro Abe, a senior leader in the Fukuda faction, had served as Minister of International Trade and Industry, one of the posts considered to be a prerequisite for an aspiring prime minister; and Ichiro Nakagawa, director general of the Science and Technology Agency, who, while he had only 12 votes from his own faction, said that he did not expect to win the election but to consolidate his long-term power base.

Mr. Nakasone's next move was shrewd and timely. With the endorsement of both the Suzuki and Tanaka factions, he rejected Mr. Fukuda's proposal to separate the office of prime minister and party president. With the Tanaka faction's national political machine, he was assured of a relatively large share of LDP support. In contrast, the Komoto faction took for granted its control of party members. Mr. Abe, on the other hand, seemed overshadowed by Mr. Fukuda's political maneuvering, and Mr. Nakagawa was in any case only interested in enlarging his faction's size. The result was that the primary election, in which more than 90 percent of the one million party members voted by mail, was won by Mr. Nakasone with 57 percent of the total vote. Mr. Komoto trailed far behind with 27 percent; Mr. Abe with 8 percent and Mr. Nakagawa had less than 7 percent. As the clear victor, Mr. Nakasone was unchallenged in the final party election. Details of the vote and the election chronology are shown in Table 1.

At issue in the primary was the quality of leadership projected by the candidates, rather than their positions on specific issues. Although Mr. Nakasone emphasized government cutbacks and Mr. Komoto favored stimulative economic measures, the press reported that these divisions did not influence the voters. Ironically, the question of the Lockheed trial and Mr. Tanaka's political influence was ignored by party members, and criticism of Mr. Tanaka by the Komoto, Fukuda and Nakagawa factions worked to the advantage of the Tanaka-Suzuki-Nakasone alliance.

Election analyses show that nearly 80 percent of the voters were male, and two thirds were more than 50 years old. Twenty-five percent were engaged in agricultural pursuits and another 25 percent were owners of small businesses. The Nakasone campaign attracted the widest variety of party members, however, and was supported by a somewhat younger group of voters, with a range of occupations including middle management and white-collar workers.

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The New Prime Minister

Yasuhiro Nakasone is a rare politician in the traditional Japanese sense. He is a powerful orator and stands in sharp contrast to the older style of leadership, whose chief concern was with party rivalries rather than public support. He is also one of the few politicians to understand the potential exposure offered by the media, and the first to take the initiative to communicate his political philosophy.

In "My Life in Politics," written in English for foreign government and press distribution, the new prime minister offers interesting insights into his generation. All the former prime ministers were men of the pre-war era. Mr. Nakasone, however, was only in his mid-20s when Japan surrendered to the Allied Forces in 1945. That experience convinced him that he and his generation would have to restore national pride and independence. Indeed, much of the impetus for Mr. Nakasone's political life seems to be his will to heal the wound.

The Cold War in 1950 heightened his international political consciousness. That year, for the first time, he traveled to Europe and the United States and began his campaign for a peace treaty that included the establishment of Japanese land, sea and air forces and a mutual defense agreement. His position today on these two issues is unchanged. "I cannot deny," Mr. Nakasone wrote, "[that] Japan's contributions to world peace have been far from adequate. Nor do I deny that its efforts on behalf of its own security and defense under the Japan-U.S. security system . . . have not been all that they could have been . . . ." But he does not challenge the basic defensive posture of his country: "Japan should content itself with a non-nuclear defense of its territories, air and sea. By no means should it seek to become a major military power."[4]

Mr. Nakasone continued his international education at Harvard University in 1953 where he attended a seminar led by Henry Kissinger. He admits that this experience influenced his subsequent political career and taught him the importance of viewing not only international but domestic problems in a multi-dimensional, global perspective.

That he intends to take a leading role in foreign policy is clear. He is deeply committed to the idea of Japan as a truly independent nation — a philosophy which by itself may face little opposition, but which will no doubt stir controversy since the implied definition includes a stronger defense capability. The FY 1983 budget, for example, which increased defense expenditures by 6.5 percent at a time when no increases were permitted for many items, has already sent shock waves around the country and Asia. Although the increase itself is not that impressive, the uneasiness it has generated stems not from the actual figure but rather from the perception that the prime minister is a man who intends to take the lead in building up Japan's defense forces.

Moreover, within the LDP, traditional politicians are suspicious of the new executive's conspicuous political style and his reputation for shifting his faction's support. Because of his shrewdness, however, his small faction has managed to survive, often through exerting a role as a lever in crucial decisions. As for the public, its reaction is still uncertain, but he is gradually emerging as a leader with a strong personality. Whether he will be able to capitalize on that impression will not be clear until the local and national elections are held during the spring and summer of this year. In yet another important respect, the prime minister's approach departs from tradition -- that is Mr. Nakasone's willingness to discuss the issues with the public. At the outset, the prime minister said that he expected to depart from traditional practice, which calls for a minimum of public speaking so as to avoid controversy. So far, his views have stimulated lively debate and predictably increased the criticism of opposition parties and interest groups. He brought a very sensitive subject into the open when, for example, he said that the taboo on exceeding 1 percent of the gross national product (GNP) for defense spending could change depending on the GNP figures.

The Cabinet

The reaction to the Cabinet appointments from other factions and from the press was sharp.[5] They condemned the prime minister for relying on men from the Tanaka faction and contended that these appointees were intended to protect the accused former prime minister. The factional balance of the Cabinet, and a comparison to the Suzuki Cabinet is presented in Table 2. Suspicions centered on Akira Hatano, Minister of Justice, and Masaharu Gotoda, chief Cabinet Secretary. Another Tanaka confidant, Susumu Nikaido, was retained as Secretary General of the LDP. Altogether, six members of this faction received Cabinet posts — the largest single group in the Cabinet. It was generally agreed that Mr. Tanaka's power was reinforced as a result of Mr. Nakasone's election. The names and positions of all Cabinet members are shown in Table 3.

Putting aside the political implications, the new ministers are considered able. One of the crucial issues — government reform — is a top priority of the new government, and Mr. Gotoda, the prime minister said, was asked to take the post of chief Cabinet Secretary mainly because it is instrumental in coordinating and negotiating with government agencies.

The business community is worried about the budget deficit and government expenditures. This group's primary interest is political stability, and that concern was laid to rest when Mr. Nakasone racked up a clear majority. The press, however, was not persuaded, and in fact predicted that the Nakasone government would be short-lived, although the tone of recent press coverage has changed. A very different view has begun to emerge, suggesting that perhaps Mr. Nakasone's strategy is to reduce the Tanaka faction's influence by appointing its members to this first Cabinet. It is quite possible, the thinking goes, that he might consolidate his power in a Cabinet reshuffle. In other words, he would schedule a national election for the House of Representatives this year, which would be quite compatible with Mr. Tanaka's strategy of holding on to power until the trial concludes. Since the LDP has ruled the country without interruption for almost thirty years, and every poll indicates that the public continues to prefer the LDP, Mr. Nakasone's reign might be quite long, these observers contend.

Leading Policy Questions

Major political and economic issues are at stake -- among them the budget deficit, the pledge to reduce government spending, international pressures from Japan's trading partners, and the still-unresolved question of defense.

Deficit Financing — In FY 1979, the total issue of new bonds reached ¥15 trillion ($65 billion), almost 40 percent of government expenditures. Despite pronouncements about strenuous efforts to cut bond issuance by FY 1984, the sluggish economy resulted in a ¥3-trillion ($13 billion) tax shortfall in FY 1981 which had to be financed, and it is expected that the shortage will escalate to ¥6 trillion ($26 billion) by the end of this fiscal year (March 31, 1983). There are three obvious approaches — drastic spending cuts, tax increases or an expansion of bond borrowing. With elections coming up, raising taxes on personal and corporate incomes has grave political implications, even though the idea of other tax increases continues to be floated.

The FY 1983 budget (April 1, 1983 - March 31, 1984), which will be debated in the Diet over the next three months, calls for program cuts and a freeze on expenditures for many items[6] (see JEI Report No. 2B, January 14, 1983). It continues attempts initiated by Prime Minister Suzuki to slash spending by streamlining the government through eliminating, merging and contracting bureaus and public corporations. The effectiveness of this campaign remains uncertain, however, as pressure from special-interest groups, including the deficit-ridden Japanese National Railways, is mounting. With the new prime minister determined to succeed in this instance, it remains to be seen whether progress will be made. The business sector can be expected to support the campaign, fearing that if this attempt fails, the combination of an increasing deficit and inflexible bureaucratic structure will result in continued poor economic performance. Under the current budget, there are no new departments, bureaus or special corporations -- the first such freeze in six years -- and 1,600 government jobs will be eliminated. (There are about 600,000 government employees in Japan.)

Trade, Defense Proposals -- Japan's increasing trade surpluses have triggered sharp criticism in the United States and Europe, and the imbalance has had severe repercussions in terms of the drift toward protectionism. Because of the danger of the trade issue spilling over to other areas, Mr. Nakasone is anxious to reach an accommodation with the United States and Europe, but his ability to override powerful domestic interest groups, particularly the farmers, is uncertain. Nokyo, the largest farmers' organization, has already collected more than six million signatures opposing liberalization of imports of oranges and beef.

The United States has held that Japan must assume a more active defense role in the Western alliance. Mr. Nakasone is very responsive to this approach, which as noted earlier has caused a political furor. Tokyo maintains, however, that its position is dictated by fundamental strategic considerations, not Pentagon pressures -- in which case the decision is all the more worrisome for critics of the prime minister. Observers note that congressional pressure on Japan's defense spending runs the risk of igniting resentment in Japan and working against constructive debate on long-term cooperation.

It is important to note that any enlargement of Japan's defense role will prompt a backlash from the Soviet Union, China, North Korea and Southeast Asia. The prevailing opinion in Southeast Asia is that Tokyo already has an excessively large economic presence. The implications of its becoming a substantial military power, even within the limitations of self-defense, has already revived bitter memories of World War II. Moreover, the Japanese seem to be unsure of themselves in this area, and there is a sharp split even among experts on the extent of the Soviet military threat in the Far East and appropriate security measures for Japan.

The View from Abroad

Because of Japan's global importance, the new prime minister has attracted a great deal of attention from the foreign press. He has been attacked by the Soviet Union and Eastern Europe for his anti-communist stance and advocacy of revived militarism. Asahi Shimbun, which conducted extensive interviews with Asian leaders, notes that in that region, defense tops the list of concerns.[7] Malaysia's prime minister admitted that a weak Japan was an even more dangerous alternative, but, he said, Tokyo's defense capability should be confined to Japanese territory. Indonesia's Vice President Malik said that Southeast Asians are unanimous in opposing the rearming of Japan. If Mr. Nakasone does amend the Constitution and, with U.S. assistance, strengthens the defense forces, the Soviet Union and China would certainly see it as a grave threat, he argued. On the other hand, Singapore's Prime Minister Lee Kuan-yu told the press that power should be balanced between the United States and Japan, and the Soviet Union and China. Unless Japan increases its defense role in proportion to the other powers, stability in the region will be threatened, he warned. Without exception, Asian leaders agreed that Japan's economic strength and technological expertise should be used to enhance development and narrow the economic gap to assure political stability in the region. However, as one leader admitted, "We are afraid of Japan."

Table 1

Chronology of the 1982 LDP Election

November 24 —	Election by registered party members.
November 25 —	Confirmation by LDP Diet members and local party representatives.
November 26 —	Election for prime minister at special session of the Diet.
November 26 —	Cabinet appointees announced.
November 27 —	Official confirmation by the Emperor. Cabinet meets.

Votes Cast in Primary

	Total	Percent
Yasuhiro Nakasone	559,673	57%
Toshio Komoto	265,078	28
Shintaro Abe	80,443	8
Ichiro Nakagawa	66,041	7
TOTAL	971,235*	

*The LDP has 1.04 million members.

Table 2

Party Membership in the House of Representatives, January 10, 1983

Liberal Democratic Party	284
Japan Socialist Party	104
Komeito	34
Democratic Socialist Party	31
Japan Communist Party	29
New Liberal Association	13
Independent	7
Vacancies	9

Factional Membership in the Nakasone and Suzuki Cabinets

	Nakasone	Suzuki
Tanaka Faction	6	4
Suzuki Faction	4	3
Nakasone Faction	2	3
Fukuda Faction	3	4
Komoto Faction	2	3
Nakagawa Faction	1	1
Independents and Minor Factions	2	2

Table 3

The Nakasone Cabinet, November 26, 1982

HR = House of Representatives
HC = House of Councillors

Prime Minister: Yasuhiro Nakasone, 64 years old, HR 14 terms.

Justice Minister: Akira Hatano, 71, HC 2 terms, (independent).

Foreign Minister: Shintaro Abe, 58, HR 8 terms, (Fukuda faction).

Finance Minister: Noboru Takeshita, 58, HR 9 terms, (Tanaka).

Education Minister: Mitsuo Setoyama, 78, HR 11 terms, (Fukuda).

Health and Welfare Minister: Yoshiro Hayashi, 55, HR 5 terms, (Tanaka).

Agriculture Minister: Iwazo Kaneko, 75, HR 9 terms, (Suzuki).

MITI Minister: Sadanori Yamanaka, 61, HR 11 terms, (Nakasone)

Transportation Minister: Takashi Hasegawa, 70, HR 10 terms, (Nakagawa).

Postal and Telecommunication Minister: Tokutaro Higaki, 66, HC 2, (Nakasone).

Labor Minister: Akira Ono, 54, HR 7 terms, (Chukan-ha).

Construction Minister: Hideo Utsumi, 60, HR 6 terms, (Tanaka).

Minister of Home Affairs: Sachio Yamamoto, 71, HR 5 terms, (Tanaka).

Chief Cabinet Secretary: Masaharu Gotoda, 68, HR 3 terms, (Tanaka).

Director General, Office of Prime Minister: Hyosuke Niwa, 71, HR 9, (Komoto).

Director General, Defense Agency: Kazuo Tanikawa, 52, HR 7 terms, (Komoto).

Director General, Government Management Agency: Kunikichi Saito, 73, HR 9 terms, (Suzuki).

Director General, Economic Planning Agency: Jun Shiozaki, 65, HR 5 terms, (Suzuki).

Director General, Science and Technology Agency: Takaaki Yasuta, 66, HC 3 terms, (Suzuki).

Director General, Environmental Agency: Matazo Kajiki, 63, HC 2 terms, (Tanaka).

Director General, National Land Agency: Mutsuki Kato, 65 HR 6 terms, (Fukuda).

Footnotes

[1] See JEI Report No. 13A, April 2, 1982.

[2] See JEI Report No. 24, June 26, 1981.

[3] See JEI Report No. 43B, November 5, 1982.

[4] Yasuhiro Nakasone, "My Life in Politics," 1982.

[5] See .Table 3.

[6] See JEI Report No. 2B, January 14, 1983, "Japan's Cabinet Approves FY 1983 Budget.".

[7] Asahi Shimbun, January 1, 1983.

For further information, contact Fumiko Mori.

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JEI REPORT

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January 21, 1983

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Japan Announces New Market-Access Package

In a step designed to strengthen the liberal trading system and contribute to the expansion of the international economy, the government of Japan has announced a new round of unilateral market-access measures, together with a series of tariff reductions taken last December (see JEI Report No. 1B, January 7, 1983), designed to reduce or eliminate duties on farm commodities and industrial goods. The measures are not tied to explicit reciprocal swaps from Japan's trading partners, according to government spokesmen.

The new policy calls for specific tariff concessions and action to liberalize customs procedures, product standards, and testing criteria that restrict the import of goods into

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1980	1981	January-November 1981	January-November 1982	September 1982	October 1982	November 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$ 17,793	$ 15,773*	$ 2,426*	$ 1,991*	$ 292*
Exports (f.o.b.)	126,736	149,522	135,156	125,234*	11,650*	11,060*	9,988*
Imports (f.o.b.)	124,611	129,555	117,363	109,461*	9,224*	9,069*	9,696*
Current Account Balance	-10,746	4,770	3,637	5,110*	1,463*	1,429*	-833*
Long-Term Capital (net)	2,394	-6,449	-4,104	-14,689*	-416*	-291*	637*
Overall Balance	-8,396	-2,144	-1,846	-5,207	823	-73	1,610
International Reserves (end of period)	25,232	28,403	28,779	22,976	24,009	22,840	22,976
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	7,361	5,306*	1,554	978	-389*
Exports (f.o.b.)	129,807	152,030	137,604	126,284*	11,635	11,109	10,057*
Cars	16,115	18,445	16,817	16,469*	1,453	1,442	1,427*
Steel	15,454	16,669	14,903	14,412*	1,235	1,143	981*
Imports (c.i.f.)	140,528	143,290	130,243	120,978*	10,081	10,130	10,446*
Crude Oil	52,763	53,343	48,389	42,218*	3,327	3,523	4,066*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	11,969	11,235*	1,290	1,092	969*
Exports (f.o.b.)	31,367	38,609	34,775	33,333*	3,202	2,897	2,725*
Imports (c.i.f.)	24,408	25,297	22,806	22,098*	1,912	1,806	1,756*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥269.50	¥277.30	¥253.10
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-14,853	-16,095	-1,336	-1,470	-880
Exports (f.a.s.)	20,790	21,823	19,758	19,163	1,568	1,804	1,815
Industrial Supplies	9,501	8,983	8,146	8,428	624	806	857
Food and Feed	5,393	5,896	5,468	4,582	434	430	407
Capital Goods	4,340	4,767	4,249	4,042	337	382	346
Consumer Goods	1,154	1,318	1,211	1,249	111	103	116
Imports (f.a.s)	30,701	37,612	34,611	35,258	2,905	3,274	2,695
Automotive Products	11,436	12,950	11,923	11,980	920	1,154	892
Industrial Supplies	5,926	7,179	6,568	6,451	503	438	405
Consumer Goods	6,198	8,340	7,734	7,321	648	781	587
Capital Goods	6,555	8,589	7,918	8,861	783	854	765

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-October 1981	January-October 1982	August 1982	September 1982	October 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	8.6%	9.9%	8.9%	9.6%	9.2%
Industrial Production	7.0%	3.1%	2.6%	1.4%	1.5%	0.6%	-3.6%
Manufacturing Operating Rate	0.7%	-4.6%	-5.3%	-2.6%	-2.9%	-3.4%	-6.8%
Number of Bankruptcies	11.6%	-1.5%	-1.2%	-2.9%	-3.5%	-3.2%	-0.3%
Residential Construction Starts	-15.0%	-9.2%	-10.2%	-2.0%*	4.9%	6.9%	14.8%*
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.61	0.58	0.59	0.58
Nominal Wages	6.3%	5.3%	5.0%	5.0%	8.0%	5.0%	4.8%
Labor Productivity	9.1%	3.5%	2.8%†	2.4%†	1.8%	n.a.	n.a.
Wholesale Prices	17.8%	1.7%	1.8%	1.9%	1.0%	1.4%	1.8%
Consumer Prices	8.0%	4.9%	5.1%	2.8%	3.1%	3.2%	3.1%
Yen-Based Export Prices	9.3%	1.9%	1.4%	3.9%	0.5%	1.2%	1.6%
Yen-Based Import Prices	43.0%	3.0%	2.4%	7.7%	6.0%	8.5%	10.2%

*Preliminary

†Through August of each year only.

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Prime Minister Impresses Washington

Although virtually no substantive action was taken on thorny trade issues, Japanese Prime Minister Yasuhiro Nakasone's four-day visit to Washington last week did succeed in improving the rather fractious climate surrounding bilateral relations. The new premier impressed both administration and congressional leaders with his grasp of the issues and his determination to expedite their resolution.

Aside from his meetings with President Reagan, in which Mr. Nakasone said both leaders established a "warm personal relationship," discussions were held with Secretary of State George Schultz, Secretary of Defense Caspar Weinberger, as well as Cabinet members Malcolm Baldrige and Donald Regan, and U.S. Trade Representative William Brock. Although official remarks were peppered with words of praise for some of the politically sensitive actions the new prime minister has taken during his first seven weeks in office, particularly the most recent package of tariff reductions and regulatory

Mr. Nakasone seems to be determined to stick to his defense policy and has said that if the opposition decides to call for a vote of confidence, he may resort to a national election for the House of Representatives. This is risky for both the LDP and the opposition in terms of political timing, fund raising and the electoral machines. Mr. Nakasone's qualities of leadership will be tested when the Diet debates these issues.

Fumiko Mori

The State of the Japanese Economy

At the start of the new year the Japanese economy faces some problems, but it is in better shape than other industrial countries. Much of the economic information available is subject to widely differing interpretations, however, making it difficult to forecast the impact on bilateral economic relations.

For example, the GNP figures released for the third quarter of 1982 show real (inflation-adjusted) GNP growth in the third quarter at 2.5 percent at an annualized rate (see attached table for details), considerably below the government's original forecast for FY 1982. However, many private-sector observers in Tokyo were not disappointed because the figure was better than they had expected. The GNP figures also show revised second-quarter data indicating that real growth in that quarter rose to an annualized 8 percent, which some see as unrealistic and possibly representing some flaw in the calculation process.

Prices are a source of encouragement in Japan. Wholesale price increases have been running less than 2 percent above year-earlier levels since last May and consumer price inflation is only 3 percent. The year average is now available for the Tokyo area consumer price index, showing 1982 prices 3.1 percent above 1981.

Other indicators are mixed. Equipment orders declined over year-earlier levels in most months of 1982, as did the manufacturing operating rate (a measure of capacity utilization). Reflecting this drop in industrial activity, unemployment is 2.4 percent — low compared to other countries, but higher than past Japanese experience. The ratio of job openings to job seekers (a widely used statistic in Japan) was 0.59 in November, considerably worse than the 0.67 average for 1981. The weakness in labor demand will probably be reflected in the 1983 wage bargaining offensive, discussed elsewhere in this issue.

The picture that emerges shows a still-growing economy with rather stable prices, but some weak spots or performance indicators below potential. It is easy to interpret these data optimistically or pessimistically, depending on the observer's viewpoint. In the eyes of some analysts, these economic factors feed into arguments opposing further unilateral market-access measures. Another debate emerging from conflicting views of the data is over appropriate fiscal policy (to stimulate or not to stimulate), as discussed in this week's JEI Report No. 4A, (January 28, 1983).

Edward Lincoln

Japan's Trade Surplus Declines in 1982

Ministry of Finance statistics show Japan's global trade surplus for 1982 on a customs clearance basis was \$6.9 billion (the fourth-largest in history), down from \$8.7 billion a year earlier. Exports slid to \$138.9 billion, down 8.7 percent in the first decline since 1952, and imports slowed to \$132.0 billion, a 7.9-percent drop. However, the trade figures calculated in yen show a different picture; exports increased 2.9 percent and imports 3.8 percent, recording all-time-highs, with the difference between this and the dollar figures attributable to the yen's depreciation.

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1980	FY 1981	October-December 1981	January-March 1982	April-June 1982	July-September 1982
Gross National Product	¥190,126.5 (3.7%)	¥198,068.2 (3.3%)	¥198,009.0 (-1.0%)	¥198,754.9 (1.5%)	¥202,624.0 (8.0%)	¥203,880.3 (2.5%)
Personal Consumption Spending	101,335.4 (0.3%)	103,090.5 (1.1%)	103,311.0 (3.2%)	104,308.4 (5.1%)	106,674.8 (9.4%)	106,993.2 (1.2%)
Private Residential Construction	10,859.8 (-10.1%)	10,653.2 (-2.0%)	10,523.7 (-5.5%)	10,362.8 (-6.0%)	10,451.8 (3.5%)	10,510.8 (2.3%)
Private Fixed Nonresidential Investment	31,964.6 (5.7%)	34,130.3 (4.4%)	34,294.7 (4.9%)	34,319.7 (0.3%)	34,504.3 (2.2%)	34,550.2 (0.5%)
Change in Business Inventories	1,805.2 (-3.2%)	1,416.7 (-23.1%)	1,962.1 (*)	1,567.8 (*)	1,447.6 (*)	778.8 (*)
Government Current Expenditures	17,973.3 (2.7%)	18,839.4 (3.9%)	18,957.8 (4.9%)	19,068.4 (2.4%)	19,362.1 (6.3%)	19,479.1 (2.4%)
Government Fixed Investment	18,002.7 (-0.5%)	18,581.9 (2.9%)	18,708.2 (-12.2%)	17,911.7 (-16.0%)	18,758.2 (20.2%)	19,817.6 (24.6%)
Change in Government Inventories	-236.8 (-509.8%)	-272.3 (15.0%)	-656.3 (*)	-114.3 (*)	-11.9 (*)	-264.7 (*)
Net External Sector	8,422.4 (247.6%)	11,628.5 (38.6%)	10,907.2 (-49.5%)	11,330.6 (16.5%)	11,413.3 (2.9%)	12,015.3 (22.8%)
Exports of Goods and Services and Factor Income Received	34,713.0 (16.6%)	40,001.2 (15.3%)	39,776.7 (-12.2%)	40,365.4 (6.1%)	40,119.9 (-2.4%)	41,236.4 (11.6%)
Imports of Goods and Services and Factor Income Paid	26,290.6 (-3.9%)	28,372.7 (7.8%)	28,869.6 (10.8%)	29,034.8 (2.3%)	28,706.6 (-4.4%)	29,221.1 (7.4%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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JEI

REPORT

No. 5A

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U.S.-JAPAN MILITARY TECHNOLOGY EXCHANGES

Summary

When Prime Minister Yasuhiro Nakasone recently decided to allow transfers of Japanese defense-related technologies to the United States, the decision was ballyhooed by the media as a major shift in Tokyo's longstanding "Three Principles on Arms Exports" banning the export of military hardware and weapons technologies. U.S. sources contend, however, that it will probably be quite some time before actual exchanges take place. First, the agreement as it currently stands is strictly "in principle;" that is to say, diplomatic notes have yet to be exchanged that would establish bureaucratic procedures for evaluating and approving such transactions. Second, while there have been reports that Washington is interested in Japan's microchips and fiber-optic technology as well as production technologies, authorities stress that there is no definitive list of technologies in which the United States is interested -- primarily because Japan's indigenous military technology is less sophisticated than that of the United States.

The conclusion, therefore, that Japan is now on its way to becoming a major weapons exporter and will eventually compete with the United States in the global arms market appears greatly exaggerated. The decision is better viewed as a political symbol which reflects Japan's recognition that the mutual security arangement now requires more reciprocal cooperation. When the government-to-government agreement is finally negotiated, one can expect a lengthy exploratory period which will probably culminate in transfers of complementary technologies, rather than the export of entire Japanese weapons systems.

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Washington's Interest in Reciprocal Technology Flows

Media coverage of the Nakasone Cabinet's recent decision to permit greater two-way flows of defense-related technologies has created a rather inaccurate impression of U.S. pressure on this issue. Washington did not initially raise the question of technology exchanges in a June 1981 meeting between Defense Secretary Caspar Weinberger and former Japanese Defense Agency Director Joji Omura. While it cannot be denied that it took considerable political courage for the new premier to act decisively on a security-related matter so early in his tenure, it is important to understand that the problem of technology transfers was hardly a new one for the prime minister or his predecessor, Mr. Suzuki, since it has been under discussion at the working level for close to three years.

In the spring of 1980, the two governments agreed to institute the Systems and Technology Forum (S&TF), a bilateral group comprised mainly of Defense Department and Japanese Defense Agency (JDA) personnel, to consider how Washington and Tokyo might cooperate in developing defense-related technologies to carry out their designated roles and missions. From the U.S. viewpoint, it was readily apparent that the goal was a two-way exchange of military technology. Because of the limited capabilities of Japan's indigenous defense industry, the American S&TF participants did not request a definitive list of technologies that U.S. defense planners and manufacturers wanted to acquire from Japan. Nor was there any expectation that these transfer arrangements could be worked out in the immediate future. However, in view of the technological prowess that Japanese companies have demonstrated in electronics and other civilian industries, Washington envisioned the possible "marriage" of complementary capabilities farther down the road; it anticipated a positive-sum result which would both reduce expenditures and expand the research and production capabilities of both parties.

U.S. officials also emphasized that such arrangements would be in complete accord with each country's treaty obligations. The U.S.-Japan Mutual Secrity Treaty (MST) stipulates that both countries shall maintain and develop each other's defense capability through mutual cooperation, while the Mutual Defense Assistance Agreement of 1954 includes provisions for an exchange of technology and know-how at the request of either government. Finally, Washington pointed out, since the 1950s, technology flows to Japan have been strictly one-sided. As an ally that has long since outgrown the postwar "patron-ward" relationship, officials said, a more reciprocal arrangement such as we have with NATO member countries is now in order.

But when the United States spelled out these implications, Tokyo balked, contending that consideration of such ventures threatened to contravene its ban on weapons exports. Essentially, this policy is outlined in the "Three Principles on Arms Exports" adopted in 1967. The ban prohibits exports to: (1) communist countries; (2) countries under United Nations sanction; and (3) countries involved or likely to become involved in a conflict. In 1976, Tokyo stiffened the ban further by restricting the export of defense equipment to any country at all. Thus, when it became clear that the S&TF would, in effect, set the stage for eventual bilateral exchanges of military technology, the Japanese participants immediately withdrew to consider whether this was possible within the context of the sacrosanct principles.

The Omura-Weinberger meeting in June 1981 was actually the first time the issue of defense technology exchanges was addressed at the Cabinet level. In raising the matter at a high-level meeting, the United States intended not only to underscore its importance to the overall U.S.-Japan defense relationship, but also to expedite the

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laborious inter-ministerial consensus-building process. The fact that Tokyo appeared to be dragging its feet for over a year had further inflamed an atmosphere already tense with charges that unfair trading practices had stimulated Japan's burgeoning trade surplus.

For U.S. congressmen from areas of high unemployment, the trade and defense issues became inextricably linked. Indeed, they argued that since Japan had to spend so little (less than 1 percent of GNP) on defense, it could afford to plow the extra money into developing consumer goods that displaced American workers. Tokyo's reticence about sharing defense technology with its chief ally and trading partner therefore provided further evidence of how inequitable the bilateral relationship was in all its aspects. It also directed attention to our arms co-production programs with Japan. One Congressman successfully amended the 1982 Defense Appropriations Act to prohibit joint ventures on a weapons system developed by an arsenal in his district (see JEI Report No. 19A, May 14, 1982).

Legislators have charged that these programs amounted to a technology grab by the Japanese, who would "do to other industries [chiefly the civil aviation industry] what they did to Detroit." In a General Accounting Office (GAO) investigation, the results appear at first glance to substantiate this contention. Using the McDonnell-Douglas Corp.'s F-15 co-production project as its focus, the agency said that the transfer of U.S. technology has contributed and will continue to contribute directly to Japan's ability to develop a world-class civil aircraft industry, and concluded that its aircraft production base had been enhanced by U.S. research and technology.

Although the GAO's conclusion was strongly refuted by major actors in the State and Defense Departments, who have consistently argued that U.S.-Japan trade and defense problems must be handled separately, it was clear that the logjam over technology transfers further exacerbated the climate and made the separation and resolution of these issues extremely difficult. The subject became a symbol of Tokyo's rigidity in dealing with bilateral problems. Thus, with the bilateral trade deficit reaching record highs, the chorus of complaints concerning Japan's restrictive trading practices growing even louder, and Tokyo's 1983 defense budget falling far below U.S. recommendations for an effective defense program, U.S.-Japan relations -- on the eve of the prime minister's January visit to Washington -- appeared to be headed for rough sailing.

The Nakasone government steered clear of a head-on collision by, among other things, offering to agree "in principle" to reciprocal military technology exchanges. At this stage, however, it would be premature for Washington to consider the issue resolved since an official agreement between the two governments has yet to be negotiated. Until bureaucratic procedures for evaluating and approving such transactions are established, joint military research and development efforts are still barred. The relevant ministries must now decide among themselves and in consultation with the United States on an internal review mechanism for technology exchanges. According to informed sources, these discussion may take most, if not all, of this year.

Japan's Internal Debate on Technology Transfers

Under the Arms Export Control Act, specific procedures must be followed in evaluating and approving transfers of U.S. military technology and equipment. If an American company is asked by a Japanese defense manufacturer for assistance in building a particular weapon, the U.S. firm applies to the Office of Munitions Control in the State Department for a license to sell hardware and/or transfer technology to the Japanese firm. The State Department reviews the request, refers it to the Office of Research and Engineering at the Defense Department for technical review, and after the Pentagon signs off on it, issues the American company an export license.

In Japan, however, no comparable review process exists. Some attribute the apparent inconsistencies in Tokyo's weapons export policy to this administrative weakness. For example, two years ago, a Japanese munitions company exported semi-finished gun barrels (referred to as "steel pipes" in the original export license application) to South Korea. The transaction sparked a furor in the Diet over the apparently lax enforcement of the Three Principles. In another incident, the Ministry of International Trade and Industry (MITI), which handles all export licensing, also allowed Ishikawajima Harima Heavy Industries Co., Ltd., one of Japan's major defense contractors, to sell the Soviet Union a floating drydock, which has since been moored at Vladivostok to serve the Russian Pacific fleet. In the South Korean case, evidence suggests that the Japanese firm knew the military applicability of the "steel pipes" but nevertheless pursued the sale. The drydock, informed sources explain, was more a case of Soviet disavowal; Moscow contended that it was ordered for the fishing fleet.

Another view targets more of the blame for these decisions on the overriding tendency of the MITI bureaucracy to consider every export license in purely business/trade terms. "To ask this ministry to consider the potential military spinoffs of a commodity," a U.S. source explains, "is to force it to talk in unfamiliar terms." In short, if a commodity is not strictly military (armaments, missile systems, etc.) or subject to COCOM control, MITI tends to regard dual-purpose items as ordinary commodities. In the wake of Diet criticism over the steel pipes, though, the ministry has now become so cautious that it has balked at licensing exports of almost all commodities with potential military applicability.

Throughout the bilateral discussions on technology transfers, the United States has therefore made it known that it would like to see MITI, the Foreign Ministry and the Japanese Defense Agency agree on an inter-ministerial review procedure that would yield a more uniform assessment of the economic and security implications for the export of defense-related technologies. Washington's conception of the government-to-government agreement is that it would be an umbrella arrangement that would establish administrative ground rules, leaving the implementation of the transfers to defense firms in the two countries. (According to the State Department, an official agreement is necessary because of the possible exchange of classified material.) In addition, the United States would like its exemption from the Three Principles clarified. In return it would agree to bar exports to third countries since the exchanges are intended to enhance the U.S.-Japan defense alliance. Washington is also insistent that the review process be impervious to changes in personnel or to domestic political interference.

On the Japanese side, each of the relevant ministries has its own conception of an ideal technology transfer agreement with the United States. This is bound to prolong the consensus-building process and perhaps further delay the negotiation of an agreement. The Foreign Ministry has said that while it has virtually no reservations about the exemption from the Three Principles, it is uncomfortable with the umbrella arrangement and prefers that a formal agreement be concluded on each transfer request. This would involve the ministry more directly in an export-related matter — long the sacred domain of MITI. Washington has already let it be known that it finds this alternative unacceptable, since it is bound to entail excessive red tape, which would only serve to impede, rather than facilitate such exchanges.

MITI, on the other hand, has been reticent about exempting the United States from the weapons export ban. First, it is fearful of losing the "secrets of Japan's success;" that is to say, it suspects that U.S. defense contractors will try to rob Japanese companies of the technological innovations that have made them world-class competitors in the civilian sector. Second, in exempting Washington from the principles, a politicomilitary factor is added to the equation. The requisite Foreign Ministry input, in practice, might lead to turf squabbles between the two ministries. Critics maintain that MITI still views defense technology issues as a trade problem and would prefer to approve exchanges on a case-by-case basis as trade concessions, rather than being obliged to consider such transfers under a government agreement that implicitly compromises MITI's administrative jurisdiction over exports. The United States has let it be known during the past three years that this is not a trade issue, but one involving the principles of cooperation under the defense alliance.

The Japanese Defense Agency (JDA) appears to be divided into two camps. On the one hand are those who view technology exchanges with the United States as a way of further solidifying the bilateral defense relationship. On the other there are those who advocate the development of a self-sufficient, indigenous defense industry. For the latter group, two-way technology flows tie the defense industry's development to the United States. These officials are prepared to accept certain economic inefficiencies in order to develop a viable Japanese defense base.

The Diet can also be expected to play a significant role as discussions on the umbrella agreement proceed. According to various Japanese press accounts, last summer Prime Minister Suzuki decided not to risk opposition party displeasure over an issue it did not regard as particularly important. The Japan Socialist Party and Japan Communist Party act as watchdogs for the Three Principles, and were in fact responsible for exposing the Korean steel pipe deal. They have come out against all technology transfers and can be expected to oppose any formal agreement with the United States on the grounds that it will undermine the weapons export ban and open the door to complete abandonment of the Three Principles.

Japan's Defense Industry: Nothing to Share?

A recurring complaint from Tokyo has been that the United States fails to specify what military technologies it wants from Japan. Washington has consistently replied that, at present, it has no particular technologies in mind but feels the potential exists for exchanges in later years. Indeed, a brief profile of Japan's miniscule defense industry shows that it has very little to offer the United States.

The government's historically small defense budget as well as the ban on arms exports have kept production of defense equipment very small and inefficient. It has therefore been impossible for the industry to achieve economies of scale that would permit low unit costs for its products. Since only large companies are capable of absorbing these high costs, the industry tends to be dominated by industrial giants who engage in defense production on the side. It has been estimated, for example, that it costs the Japanese nearly twice as much to license-produce the F-15 fighter aircraft as it would to import the finished product, and two to three times more than the cost of an import to develop a weapons system from scratch.

Moreover, given the small profit margin from sales of defense equipment (e.g. the JDA permits a profit margin of only 5 percent for naval vessels), there has been a general reluctance on the part of arms producers to embark on their own expensive research and development efforts. With only 1 percent of an already-small defense budget allocated for military research and development, it comes as no surprise that many Japanese arms produced with indigenous technologies are inferior to their American equivalents.

It has been suggested that since Japan's economic dependence upon defense procurement is so minimal, it does not need to reproduce or initiate the production of military equipment. That argument is refuted by certain government and industry representatives who favor the development of indigenous weaponry, given the American refusal to share sophisticated "black box" technology with Japan, and the nation's geographic isolation from its chief ally. Thus, it would appear that for political and strategic reasons common to all industrial countries, Japan has tolerated and will continue to tolerate high costs in developing its domestic industry. These concerns, together with Washington's interest in achieving interoperability between U.S. and Japanese forces, have resulted in co-production projects covering a wide range of sophisticated military equipment. The Self Defense Forces' new F-15 fighters are being built by Mitsubishi Heavy Industries Co., Ltd., under license from McDonnell Douglas Corp. The Lockheed Corp.'s Orion (P-3C) antisubmarine patrol planes are being co-produced with Kawasaki Heavy Industries Co., Ltd. Last year, Nissan Motor Co., Ltd. paid Martin-Marietta Corp. an estimated $10 million for access to its advanced missile and space technology. All of these one-way technology flows add to the concern that the United States may be indirectly aiding and abetting the development of the Japanese civil aviation industry. Although it is undeniable that Tokyo is interested in the potential commercial applicability of U.S. military know-how, the long-term development of its defense industry is a significant factor in the equation.

In the near future, then, what military technology could Japan exchange that would be a useful contribution to the bilateral defense relationship? Probably nothing, *The Economist* contends, in a recent feature article on Japan's defense industry. But, it goes on, what the United States is probably most attracted to is Japanese production technology. When queried about this, however, Defense Department officials insist that it would be up to industry to decide where Japanese expertise and resources would be most effectively applied.

Conclusion: The Prospects for a Government-to-Government Agreement

It may take months for the official agreement allowing defense-related technology transfers to be concluded. For one thing, with the Diet still deliberating the fiscal 1983 budget, MITI, the Foreign Ministry and the JDA will not be in a position to seriously negotiate this question with the United States until the budget is passed. Concurrently, some type of inter-ministerial consensus will have to be reached concerning review procedures. U.S. sources therefore speculate that serious discussion cannot commence until late March or April. There is also interest in scheduling an S&TF meeting in early summer by which time the negotiations will be underway, making this a more meaningful meeting. At the same time, since criticism of co-production arrangements is bound to continue, any appearance of Japanese foot-dragging in these negotiations will make it increasingly difficult for State and Defense Department officials to refute these concerns, and legislation restricting such projects could conceivably reappear on Capitol Hill.

The Economist's prediction that Japan may soon become an arms exporter in competition with the United States, West Germany, France and Britain is not considered likely. When the official agreement is finally concluded, Defense Department officials explain, there is bound to be a lengthy trial period during which the respective industries will try to decide how best they can cooperate using complementary capabilities. It is highly unlikely in the foreseeable future that entire weapons systems will be exported to the United States or to any other country.

For further information, contact Barbara Wanner.

* * * * * *

Table 1: Top 20 Defense Companies, Based on Amount of Defense Contracts

(in thousands of dollars*)

		FY 1979	FY 1980
1.	Mitsubishi Heavy Industries, Ltd.	$422,059	$1,079,586
2.	Ishikawajima-Harima Heavy Industries Co., Ltd.	234,956	499,287
3.	Kawasaki Heavy Industries, Ltd.	215,754	373,717
4.	Mitsubishi Electric Corp.	173,735	333,165
5.	Toshiba Corp.	79,204	151,438
6.	Nippon Electric Co., Ltd.	72,455	102,693
7.	C. Itoh and Co., Ltd.	72,194	64,626
8.	Nippon Oil Co., Ltd.	59,523	59,379
9.	Japan Steel Works, Ltd.	44,805	56,479
10.	Sumitomo Heavy Industries, Ltd.	38,579	55,420
11.	Komatsu, Ltd.	37,272	55,328
12.	Hitachi Zosen Corp.	35,487	52,520
13.	Tokyo Keiki Co., Ltd.	33,354	43,222
14.	Hitachi, Ltd.	31,786	41,059
15.	Maruzen Oil Co., Ltd.	31,133	36,502
16.	Oki Electric Industry Co., Ltd.	29,217	35,673
17.	Shin Meiwa Industry Co., Ltd.	29,178	33,556
18.	Mitsubishi Corp.	29,174	31,945
19.	Daikin Industries, Ltd.	25,472	31,116
20.	Shimadzu Corp.	25,211	30,886
TOTAL		1,720,548	3,167,597

*The following average fiscal year exchange rates, which reflect the mid-point in the Tokyo spot foreign exchange market, were used to convert the yen production figures: FY 1979, ¥229.66 and FY 1980, ¥217.25.

Source: Far Eastern Economic Review, December 4, 1981, p. 76

Table 2: Changes in Composition of Defense Expenditures

(in billions of dollars*)

	FY 1977		FY 1978		FY 1979		FY 1980		FY 1981	
	Budget	Percent	Budget	Percent	Budget	Percent	Budget	Percent	Budget	Percent
Total	$6,591	100.0%	$9,439	100.0%	$9,120	100.0%	$10,266	100.0%	$10,549	100.0%
Personnel and Provision	3,627	55.0	5,137	54.4	4,687	51.4	5,063	49.3	5,030	47.7
Supplies	2,964	45.0	4,302	45.6	4,433	48.6	5,203	50.7	5,519	52.3
Equipment Acquisition	1,146	17.4	1,618	17.1	1,709	18.7	2,122	20.7	2,373	22.5
R&D	61	0.9	86	0.9	89	1.0	104	1.0	110	1.0
Facility Improvement	159	2.4	229	2.4	263	2.9	283	2.8	231	2.2
Maintenance	959	14.5	1,367	14.5	272	13.9	1,446	14.1	1,547	14.7
Base Counter-Measures	531	8.0	817	8.7	932	10.2	1,068	10.4	1,105	10.5
Other	108	1.5	185	2.0	168	1.8	180	1.8	153	1.5

*The following average fiscal year exchange rates, which reflect the mid-point on the Tokyo spot foreign exchange market, were used to convert the yen production figures: FY 1977, ¥256.53; FY 1978, ¥201.40; FY 1979, ¥229.66; FY 1980, ¥217.25; and FY 1981, ¥227.51.

Source: The Japan Times, Ltd., Defense of Japan, 1981, p. 295

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REPORT

No. 6A

February 11, 1983

U.S.-JAPAN COMPETITION IN INDUSTRIAL TRUCKS

Summary

The U.S. industrial-truck industry is floundering under the weight of the sharpest and longest shipment decline in perhaps a quarter-century. Demand at home and abroad for forklifts and motorized hand trucks like pallet and platform trucks has shrunk along with the slump in the world economy. Stiff competition from Japanese lift-truck manufacturers, which have captured a large share of the highest volume segment of the market with their reliable, low-priced light-duty machines, has added to U.S. makers' woes, as has the industry's substantial excess production capacity. These factors, plus the encroachment of new technologies, are forcing a retrenchment in the American industrial-truck industry.

World Slump Hits U.S. Makers

Like machine tool bookings, orders for forklifts and other lift trucks are extremely cyclical, varying by as large a multiple as four with changes in industrial production. Moreover, manufacturers in both industries use order backlogs to cushion production during valleys in the booking cycle. A fat backlog of unfilled orders from the 1972-73 economic boom sustained American lift-truck builders through the worst of the 1974-75 recession. In fact, U.S. industrial-truck shipments hit a then-record 103,833 units in 1974 before tumbling by more than a third over the next two years.

Orders for industrial trucks bounced back stronger than ever with the upswing in U.S. industrial activity in the late 1970s, in part because of the new emphasis of American business on productivity improvements and cost-saving measures. The substantial amount of production capacity added by domestic lift-truck manufacturers in response to the 1972-73 surge in bookings enabled them to avoid the delivery bottlenecks that had sprung up during the earlier boom, and output rebounded sharply. By 1979 U.S. industrial-truck shipments reached an all-time high of 108,619 units, but the industry had to pay a steep price for the quick recovery.

When the American economy began to stumble after the 1979 oil crunch, lift-truck orders once again started to taper off. As the recession spread from the automotive and lumber industries to other major manufacturing customers like primary metal producers, fabricated metal product makers, paper manufacturers and converters, and processed food and beverage firms, and moved into the distribution field -- lumber and construction-material yards, industrial storage yards, trucking and public warehousing, freight yards, ports, harbors and airports, domestic demand for forklifts increasingly dried up. The slump quickly translated into a catastrophic shipment slide for the American industry, which had gone into the recession with a slimmed-down backlog of unfilled orders because of the new capacity put in operation in the mid- and late 1970s. In 1982, the third year of the downturn, U.S. producers shipped out only an estimated 52,000 lift trucks — less than half of 1979's record level and the smallest volume since at least 1964.

Last year American industrial-truck manufacturers operated at one-third of capacity or below. These low utilization rates were a sign not only of depressed demand in the U.S. market but also of recessionary conditions in foreign markets, where major makers generate roughly two-fifths of their sales revenues, principally through onshore production. Business in Canada, the largest single export market for both parts and vehicles and the site of four American-owned plants, turned down in tandem with U.S. demand. The recession in lift trucks then hit Europe, a big export market, partly because 11 manufacturing facilities are located there, and Central and South America, which is important to U.S. makers as a production location (three wholly owned plants and two joint ventures) as well as an export destination.

For U.S. industry leader Clark Equipment Co., shrinking demand in the United States and abroad trimmed lift-truck sales from 1979's record level of $767 million to $552 million in 1981, a 28-percent drop, followed by a 19.7-percent contraction in January-September 1982. Total unit shipments were off by 26 percent in 1981, the result of a 27-percent decline in North American output, a 32-percent decrease in European production and a 1-percent dip in shipments from other overseas facilities. Number-two Hyster Co., which earns 90 percent-plus of its sales from industrial trucks, saw its sales drop 14.6 percent -- from an all-time-high $683 million in the year ending January 31, 1980 to $584 million in FY 1981 -- and then fall by an additional 27.3 percent in the nine months through October 1982. Its unit shipments decreased 19 percent in FY 1980 and another 11 percent in the next fiscal year; in the February-July 1982 period, volume was down a further 21 percent. Other full-line American lift-truck makers — Eaton Corp., Caterpillar Tractor Co.'s Towmotor Corp. subsidiary and Allis-Chalmers Corp. — were no more immune to the impact of the recession than their larger competitors.

Japanese Producers Stake Out Heart of Market

American lift-truck manufacturers have had to cope not only with the rippling effects of the recession but also with stiff Japanese competition in the United States and in third markets. For Japan's major forklift-truck makers -- number-one Toyota Motor Co., Ltd., Komatsu Forklift Co., Ltd., the second-largest producer and an affiliate of construction equipment giant Komatsu, Ltd., number-three Toyo Umpanki Co., Ltd. (TCM), Nissan Motor Co., Ltd., Mitsubishi Heavy Industries, Ltd. and its affiliate, Nippon Yusoki Co., Ltd. (NYK), exports have given some much-needed backbone to production in the face of lackluster demand at home.

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Japanese forklift production peaked at 87,107 trucks in 1974, a year after domestic shipments topped out, and then plunged 41.5 percent in 1975. Domestic business, dependent on the replacement market for as much as three-fifths of sales, remained in the doldrums, but output recovered steadily, braced by expanding exports. The old production record was broken in 1979 and a new one of 103,974 units was set in 1980, when shipments at home finally reached their former high.

By that time, though, overseas deliveries were accounting for just under half of total forklift output or 48,552 units, compared with one-third in 1974 (28,566 units). With domestic business going downhill in 1981, the scale tipped to exports, but the 50,941 forklifts shipped abroad that year did not prevent production from declining 10.5 percent to 93,060 units. In 1982, not even exports provided a buffer, as the deepening slump in world lift-truck demand forced Japanese makers to cut their output back to an estimated 76,000 units.

In expanding their overseas shipments, Japan's forklift manufacturers pursued a marketing strategy common to a number of other successful Japanese export industries: identifying a market segment not tapped by foreign makers and then supplying a high-quality, low-cost product. In industrial trucks, American makers had left themselves open at the low end of the product line -- inexpensive, no-frills trucks with a lifting capacity of 2,000 to 6,000 pounds for use at retail lumber stores, food warehouses and similar light-duty applications. Starting in the mid-1960s, therefore, Nissan (Datsun), Toyota and TCM began to develop a market in the United States for light-usage machines. By the late 1970s, the U.S. marketing units of Japan's major forklift producers, which then included NYK and Komatsu Forklift, had helped turn 3,000-to-5,000-pound cushion-tire lift trucks and 4,000-to-5,000-pound pneumatic-tire lift trucks into the highest volume segment of the American industrial-truck market.

Although Japanese forklift producers gained a foothold in the American lift-truck market by capitalizing on a major gap in U.S. makers' product lines, low prices are the key to their current market strength, importers and domestic manufacturers generally agree. They part company, though, on the exact source of the price edge. American builders, noting the price sensitivity of lift trucks, zero in on the yen's undervaluation. Some also point out that Japanese makers use automotive components in their forklifts rather than the costlier industrial-grade components used by American companies.

Importers focus on a different aspect of the cost structure, singling out the automated production processes of Japanese forklift makers and the economies of scale that higher operating rates afford them. Nissan and Toyota, which vie for market leadership among the Japanese imports, also cite the spillover effects of their expertise in automotive manufacturing. Industry analysts add as well that Japanese companies have not gone in for "bells and whistles" on their lift trucks like American makers have.

Even in today's depressed U.S. sales environment, Japanese industrial-truck manufacturers argue, low prices are not the whole story behind their market inroads, which extend to perhaps 20 percent of the market for engine-powered rider lift trucks and about 5 percent of the electric rider market. Quality tops importers' lists of non-price factors, followed closely by reliability and low operating and maintenance costs. Continued product improvements in terms of fuel economy, performance, drivability and comfort are also cited as major selling points.

Japanese forklift makers have employed the same sales strategy to win a significant slice of the lift-truck business in Europe, which rivals the United States in most years as an export market for the industry. Their reported 20-percent-plus share of the European market has partly come at the expense of American companies, both as exporters from the United States and in-country producers. German, French and British manufacturers have apparently been the main losers, though. As their sales positions have deteriorated, the chorus of complaints about Japanese inroads has risen, culminating last month in a formal request by the European Community for "voluntary" limits on Japan's forklift shipments.

American Companies Adapt to Shrinking Market

While Clark, Hyster and other American lift-truck makers were projecting a downturn in the cyclical industrial truck business as early as the beginning of 1980, they were unprepared for the severity of the slide or its duration. Tighter inventory controls and manufacturing and overhead cost-containment programs, the measures initially adopted to cope with the recession, were increasingly accompanied by employee furloughs and layoffs. As lift-truck demand continued to shrivel up in the United States, American firms, which compete in good years through a comparison of specifications and performance, resorted to selective price-cutting. By 1982, they were slugging it out with each other and Japanese importers with across-the-board discounts; some makers were reportedly participating as well in "deep discounting" -- selling below the market and sometimes even below cost -- to capture what little business there was.

Slumping world demand on top of excess production capacity and increased Japanese competition soon forced company executives to map out more drastic strategies than inventory reductions, layoffs and similar cost-cutting measures. With its lift-truck operations in the red in 1982 and its construction equipment and axles and transmissions businesses equally hard hit by the recession, industry leader Clark unveiled a plan last fall to hammer down the firm's manufacturing breakeven point from overall sales of $1,425 million to $925 million. Central to this program is plant consolidation. In lift trucks, the company expects to reduce operating costs 41 percent by phasing out its Battle Creek, Michigan facility this year and integrating North American production at newer, more efficient factories in Kentucky and Ontario, Canada, as well as by merging its two West German plants. Clark also hopes to lower material and components costs for its industrial trucks by 35 percent through product design changes and worldwide sourcing.

Within the year, the top U.S. lift-truck manufacturer is also expected to introduce a low-priced, light-duty lift-truck series designed specifically to compete head to head with Japanese products. This is a marketing strategy Hyster has successfully pursued. Since mid-1981, the number-two American maker, known for its top-of-the-line machines, has been turning out the 4,000-to-6,000-pound-capacity Challenger 40-60 XL series of lift trucks at a highly automated factory in Northern Ireland. In the first year on the market, Hyster officials conservatively estimate, the Challenger XL captured 10 percent of low-end world lift-truck sales.

Hyster's state-of-the-art Northern Ireland plant is the first part of a game plan to improve international cost competitiveness. The second part involves a thorough analysis of the company's 14 other worldwide manufacturing operations. Earlier this month, Hyster announced that its Portland, Oregon plant, the oldest of seven U.S. facilities, would be closed, a casualty of the drive to trim manufacturing costs. Other domestic lift-truck facilities could also be earmarked for closure or downsizing since the firm, normally the most profitable American industrial-truck maker, broke even at best in the year ending January 31.

Earthmoving equipment leader Caterpillar, which last year had its largest loss since 1932, has also announced a cutback in capacity. Slated for closure is the main Towmotor lift-truck facility, located in Mentor, Ohio. Its output will be transferred to a plant in

Oregon and another in England. Looking further down the road, Caterpillar is negotiating with a foreign company, thought to be the Daewoo Group of Korea, to make some of its lift trucks.

Faced with the prospect of two back-to-back annual net losses, Allis-Chalmers, primarily a maker of process equipment and agricultural machinery, moved in 1982 to pare its lift-truck manufacturing capacity. A plant in Columbia, South Carolina was phased out, as was another in France, leaving the company with lift-truck facilities in Illinois and Quebec, Canada. Like other industrial-truck makers, Allis-Chalmers has also stepped up worldwide sourcing, buying the drive line for certain lift-truck models from Mitsubishi Heavy Industries (which entered the U.S. market with its own lift trucks in 1980) and a narrow-aisle electric rider from NYK.

Of the five major U.S. industrial-truck manufacturers, Eaton has been the fastest to react to changing market conditions. It has also adopted the most radical strategic plan. In 1981, the diversified maker of electrical and electronic products and vehicle components led the way on plant consolidation, shifting lift-truck production from its Philadelphia plant, now 95 percent phased out, to three newer facilities in the South. Subsequently, company executives outlined a long-range plan to transfer the entire output of newly developed engine-powered lift trucks to Japan, where Eaton has had an equally owned joint venture with Sumitomo Heavy Industries, Ltd. since 1972. This proposal is a logical extension of the firm's current relationship with Sumitomo Yale Co., Ltd., since the Japanese company supplies Eaton with chassis for its smallest engine-powered lift trucks and for some mid-range and heavyweight models.

What really sets Eaton apart from its American competitors, though, is a recently announced plan to spin off lift-truck operations into a separate company. The new, $200-million business, to be 19 percent Eaton-owned, will run Eaton's three U.S. plants and a British facility; it will also take over the company's interest in Sumitomo Yale. A West German factory will be sold to a European concern, but that buyer will acquire an equity stake in the new venture along with other investors, possibly including Sumitomo Heavy Industries.

Eaton, it can be argued, has seen the writing on the wall in lift trucks. A mature business before the current slump, lift trucks offer little hope for strong growth, even with an economic recovery. Many lift-truck customers are in shrinking smokestack industries like autos and steel. Builders also face continuing encroachment by alternative materials-handling technologies, particularly automated storage and retrieval systems (AS/RS), which provide greater productivity and cost benefits than forklifts.

American industrial-truck manufacturers cannot be faulted for ignoring technological trends in the materials-handling field. Through Eaton-Kenway, Eaton has become the U.S. leader in automated storage and retrieval systems. Clark also has a strong position in this rapidly growing business. Allis-Chalmers is represented as well. In addition, Hyster, which signed an agreement last May with the Republic of Ireland for a $100-million facility to produce automated handling equipment, is planning a major thrust into AS/RS.

While analysts give American industrial-truck makers high marks for moving aggressively into the automated materials-handling field, there is at least one drawback to this strategy. Japanese forklift producers, having also come to the conclusion that lift trucks are a low-growth business, are moving equally fast to become integrated materials-handling-equipment producers.

For further information, contact Susan MacKnight.

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Table 1: U.S. Shipments of Industrial Trucks, 1978-82

(value in millions of dollars, quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Total	$ 2,425	$ 2,808	$ 2,532	$ 2,405*	n.a.	n.a.
Quantity						
Motorized Hand Trucks	20,994	24,183	20,495	18,734	14,008	11,469
Rider-Type Electric Lift Trucks	25,119	28,654	24,110	19,784	14,272	12,367
Rider-Type Engine-Powered Lift Trucks and Tractors	51,986	55,782	39,448	31,885	24,185	15,794
Total	98,099	108,619	84,053	70,403	52,465	39,630

*Estimated

Source: U.S. Department of Commerce, U.S. Industrial Outlook 1983 (value data); Industrial Truck Association as reported in U.S. Department of Commerce, Survey of Current Business (quantity data)

Table 2: Total U.S. Exports of Industrial Trucks, 1978-82

(value in thousands of dollars, quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Walkie-Type Lift Trucks	$ 6,118	$ 6,761	$ 7,080	$ 7,381	$ 5,966	$ 4,250
Rider-Type Electric Lift Trucks	34,948	35,245	49,521	53,595	39,032	29,894
Rider-Type Gas-Powered Lift Trucks	74,952	82,368	93,973	78,825	61,754	37,152
Rider-Type Diesel-Powered Lift Trucks and Tractors	51,579	49,139	81,918	97,187	77,034	37,957
Parts	140,915	162,992	205,282	216,008	162,557	133,955
Total	308,512	336,505	437,774	452,996	346,343	243,207
Quantity						
Walkie-Type Lift Trucks	2,676	1,692	1,685	1,432	1,159	796
Rider-Type Electric Lift Trucks	4,255	3,393	4,285	3,601	2,638	2,323
Rider-Type Gas-Powered Lift Trucks	4,484	4,466	4,597	3,411	2,743	1,675
Rider-Type Diesel-Powered Lift Trucks and Tractors	2,332	2,295	3,300	3,610	2,932	1,652
Total	13,747	11,846	13,867	12,054	9,472	6,446

Source: U.S. Department of Commerce, U.S. Exports (FT 410)

Table 3A: Total U.S. Imports of Industrial Trucks, 1978-82

(value in thousands of dollars, quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Walkie-Type Lift Trucks Rider-Type Electric Lift Trucks Rider-Type Gas-Powered Lift Trucks Rider-Type Diesel-Powered Lift Trucks Self-Propelled Work Trucks	$115,399	$137,486	$102,658			
Walkie-Type Lift Trucks				$ 2,889	$ 2,271	$ 2,992
Rider-Type Electric Lift Trucks				13,372	9,932	8,417
Rider-Type Gas-Powered Lift Trucks				89,861	64,778	58,463
Rider-Type Diesel-Powered Lift Trucks				41,153	31,522	23,239
Self-Propelled Work Trucks				4,487	3,354	3,949
Parts	39,084	46,010	37,581	40,686	28,608	26,785
Total	154,483	183,496	140,239	192,448	140,465	123,845
Quantity						
Walkie-Type Lift Trucks Rider-Type Electric Lift Trucks Rider-Type Gas-Powered Lift Trucks Rider-Type Diesel-Powered Lift Trucks Self-Propelled Work Trucks	17,301	18,412	13,470			
Walkie-Type Lift Trucks				526	435	777
Rider-Type Electric Lift Trucks				1,480	1,072	944
Rider-Type Gas-Powered Lift Trucks				11,107	8,027	7,097
Rider-Type Diesel-Powered Lift Trucks				4,417	3,366	2,113
Self-Propelled Work Trucks				493	375	357
Total	17,301	18,412	13,470	18,023	13,275	11,288

Table 3B: U.S. Imports of Industrial Trucks from Japan, 1978-82

(value in thousands of dollars; quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Walkie-Type Lift Trucks	$90,796	$102,909	$72,401	$ 408	$ 408	$ 6
Rider-Type Electric Lift Trucks				7,202	4,860	4,038
Rider-Type Gas-Powered Lift Trucks				72,705	52,468	41,429
Rider-Type Diesel-Powered Lift-Trucks				35,359	26,992	14,453
Self-Propelled Work Trucks				1,877	1,486	406
Parts	7,568	8,026	7,283	8,861	6,176	5,851
Total	98,364	110,935	79,684	126,412	92,391	66,182
Quantity						
Walkie-Type Lift Trucks	12,658	14,357	10,576	50	50	1
Rider-Type Electric Lift Trucks				858	603	473
Rider-Type Gas-Powered Lift Trucks				9,643	6,988	5,659
Rider-Type Diesel-Powered Lift Trucks				4,195	3,240	1,613
Self-Propelled Work Trucks				309	249	45
Total	12,658	14,357	10,576	15,055	11,130	7,791

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

Table 4: Japan's Production of Industrial Trucks, 1978-82

(value in thousands of dollars*; quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Forklifts	$609,813	$683,654	$821,258	$836,198	n.a.	n.a.
Electric Forklifts	128,089	149,466	177,022	178,412	n.a.	n.a.
Engine-Powered Forklifts	481,724	534,188	644,236	657,785	n.a.	n.a.
Pallet Trucks	1,839	3,359	2,805	2,557	n.a.	n.a.
Platform Trucks	5,517	11,025	9,152	9,422	n.a.	n.a.
Straddle Carriers	5,118	4,057	9,019	4,045	n.a.	n.a.
Other Industrial Trucks	19,773	26,609	37,113	45,674	n.a.	n.a.
Total	642,060	728,704	879,347	897,896	n.a.	n.a.
Quantity						
Forklifts	77,868	93,374	103,974	93,060	72,638	57,496
Electric Forklifts	13,505	16,886	19,951	18,492	n.a.	n.a.
Engine-Powered Forklifts	64,363	76,488	84,023	74,568	n.a.	n.a.
Pallet Trucks	601	925	917	912	n.a.	n.a.
Platform Trucks	1,260	3,650	2,306	2,317	n.a.	n.a.
Straddle Carriers	21	16	48	13	n.a.	n.a.
Other Industrial Trucks	4,669	6,704	8,611	8,021	n.a.	n.a.
Total	84,419	104,669	115,856	104,323	n.a.	n.a.

*The following average annual exchange rates, which reflect the mid-point on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1978, ¥210.44; 1979, ¥219.14; 1980, ¥226.74; and 1981, ¥220.54.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics

Table 5A: Japan's Total Exports of Industrial Trucks, 1978-82

(value in thousands of dollars*; quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Forklift Trucks	$296,061	$329,542	$411,469	$475,751	$375,759	$268,054
Other Work Trucks	5,566	6,490	7,239	11,564	6,182	6,547
Tractors	1,301	1,248	2,332	4,078	2,948	2,735
Parts	29,855	31,295	36,919	42,713	33,178	27,120
Total	332,784	368,576	457,960	534,106	418,067	304,456
Quantity						
Forklift Trucks	37,148	40,651	48,552	50,941	39,846	31,330
Other Work Trucks	697	616	1,037	1,220	810	804
Tractors	189	176	236	358	248	254
Total	38,034	41,443	49,825	52,519	40,904	32,388

Table 5B: Japan's Exports of Industrial Trucks to the United States, 1978-82

(value in thousands of dollars*; quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Forklift Trucks	$100,329	$ 98,139	$76,110	$124,131	$93,356	$52,454
Other Work Trucks	59	20	14	71	71	57
Tractors	0	0	0	6	0	65
Parts	6,684	6,559	5,847	6,456	4,765	3,488
Total	107,072	104,718	81,971	130,663	98,192	56,064
Quantity						
Forklift Trucks	14,442	13,519	10,656	15,569	11,737	7,165
Other Work Trucks	11	4	6	51	51	17
Tractors	0	0	0	1	0	8
Total	14,453	13,523	10,662	15,621	11,788	7,190

*The following average exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1978, ¥212.18; 1979, ¥217.47; 1980, ¥227.67; 1981, ¥219.90; January-September 1981, ¥217.94; and January-September 1982, ¥243.39.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 6: Japan's Total Imports of Industrial Trucks, 1978-82

(value in thousands of dollars*; quantity in units)

	1978	1979	1980	1981	Nine Months 1981	Nine Months 1982
Value						
Forklift Trucks	$ 336	$ 616	$ 667	$1,689	$1,606	$ 214
Other Work Trucks and Tractors	291	197	3,979	3,550	1,190	256
Parts	674	786	907	2,625	1,912	1,093
Total	1,301	1,599	5,552	7,864	4,708	1,563
Quantity						
Forklift Trucks	21	25	53	76	71	35
Other Work Trucks and Tractors	45	22	25	30	22	14
Total	66	47	78	106	93	49

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*The following average exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1978, ¥212.17; 1979, ¥217.46; 1980, ¥227.85; 1981, ¥219.94; January-September 1981, ¥217.94; and January-September 1982, ¥243.15.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

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Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1980	1981	January-December 1981	January-December 1982	October 1982	November 1982	December 1982
Japan's Balance of Payments							
Trade Balance	$ 2,125	$ 19,967	$ 19,967	$ 18,191*	$ 1,991*	$ 292*	$ 2,397*
Exports (f.o.b.)	126,736	149,522	149,522	137,651*	11,060*	9,988*	12,429*
Imports (f.o.b.)	124,611	129,555	129,555	119,460*	9,069*	9,696*	10,032*
Current Account Balance	-10,746	4,770	4,770	6,896*	1,429*	-833*	1,706*
Long-Term Capital (net)	2,394	-6,449	-6,449	-15,007*	-291*	637*	-327*
Overall Balance	-8,396	-2,144	-2,144	-4,971	-73	1,610	236
International Reserves (end of period)	25,232	28,403	28,403	23,262	22,840	22,976	23,262
Japan's Customs Clearance Trade							
Trade Balance	-10,721	8,741	8,741	6,884*	978	-411	1,468*
Exports (f.o.b.)	129,807	152,030	152,030	138,854*	11,109	10,063	14,512*
Cars	16,115	18,445	18,445	18,019*	1,442	1,427*	1,549*
Steel	15,454	16,669	16,669	15,655*	1,143	981*	1,245*
Imports (c.i.f.)	140,528	143,290	143,290	131,970*	10,130	10,474	13,043*
Crude Oil	52,763	53,343	53,343	46,267*	3,523	4,066*	4,048*
Japan-U.S. Trade							
Trade Balance	6,959	13,312	13,312	12,178*	1,092	969*	962*
Exports (f.o.b.)	31,367	38,609	38,609	36,341*	2,897	2,725*	3,006*
Imports (c.i.f.)	24,408	25,297	25,297	24,162*	1,806	1,756*	2,044*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥203.00	¥219.90	---	---	¥277.30	¥253.10	¥235.00
U.S.-Japan Trade							
Trade Balance	-9,911	-15,789	-15,789	-16,778	-1,470	-880	-683
Exports (f.a.s)	20,790	21,823	21,823	20,966	1,804	1,815	1,803
Industrial Supplies	9,501	8,983	8,983	9,173	806	857	745
Food and Feed	5,393	5,896	5,896	4,971	430	407	389
Capital Goods	4,340	4,767	4,767	4,434	382	346	392
Consumer Goods	1,154	1,318	1,318	1,356	103	116	107
Imports (f.a.s.)	30,701	37,612	37,612	37,744	3,274	2,695	2,486
Automotive Products	11,436	12,950	12,950	12,890	1,154	892	910
Industrial Supplies	5,926	7,179	7,179	6,795	438	405	344
Consumer Goods	6,198	8,340	8,340	7,842	781	587	521
Capital Goods	6,555	8,589	8,589	9,530	854	765	669

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-November 1981	January-November 1982	September 1982	October 1982	November 1982
Discount Rate (end of period)	7.25%	5.5%	6.25%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.5%	8.9%	8.8%	9.4%	8.9%	8.3%	8.0%
Industrial Production	7.0%	3.1%	3.0%	1.2%	0.6%	-3.6%	-0.7%
Manufacturing Operating Rate	0.7%	-4.6%	-4.9%	-2.7%	-3.4%	-6.8%	-3.5%
Number of Bankruptcies	11.6%	-1.5%	-1.3%	-2.8%	-3.2%	-0.3%	-2.5%
Residential Construction Starts	-15.0%	-9.2%	-9.6%	-0.7%*	6.9%	14.8%	13.6%*
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.61	0.59	0.58	0.59
Nominal Wages	6.3%	5.3%	5.2%	5.1%	5.0%	4.8%	5.4%
Labor Productivity	9.1%	3.5%	3.1%†	2.3%†	1.3%	n.a.	n.a.
Wholesale Prices	17.8%	1.4%	1.4%	1.9%	1.7%	2.0%	2.0%
Consumer Prices	8.0%	4.9%	5.0%	2.7%	3.2%	3.1%	2.3%
Yen-Based Export Prices	8.6%	1.2%	1.1%	4.3%	2.4%	2.9%	2.8%
Yen-Based Import Prices	44.7%	1.6%	1.4%	7.9%	8.8%	10.7%	11.4%

*Preliminary
†Through September of each year only.

For Japan's most recent GNP data, see JEI Report No. 4B, January 28, 1983.

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REPORT

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March 4, 1983

JAPAN'S ECONOMIC FORECASTERS

Summary

In Japan, economic forecasts for the fiscal year are issued every December by government and private financial institutions. Confidence in these estimates has been declining recently, however, owing to the disparity between projected and real growth levels. Moreover, the drop in economic growth has created lasting large fiscal deficits and severe trade frictions. Since the oil crisis, a structural change in the Japanese economy has stymied efforts to elucidate economic activity and find solutions to sluggish growth. While recent predictions have clustered around a narrow range of growth rates, in the medium- and long-term outlook there is a great difference between economists, whose forecasts range from zero growth to as high as 6 percent.

Economic Forecasts

The extensive use of economic forecasting in Japan by government and private institutions followed the introduction of an econometric model used in the government's medium-term economic plan for FY 1964-68. Every year, more than two dozen economic projections are released by government agencies, business and financial institutions and research organizations. Generally, the picture drawn by government economists tends to be more optimistic than the private think-tank forecasts.

The predicted upturn in the government's initial forecast for FY 1982 (April 1, 1982 - March 31, 1983) was for real growth of 5.2 percent, with the domestic sector contributing 4.1 percentage points and external demand 1.1 percentage points. When the slowdown persisted, however, and it was estimated that growth would be closer to 2.7 percent unless some stimulus was provided, the government had to adopt an economic recovery package which was expected to spur growth to a 3.4-percent rate. Revisions were called for once again, though, in December when the government said the final figure would be closer to 3.1 percent.

One explanation for this juggling, it is assumed, is that because of domestic political considerations the government had to show that it would be able to cut the huge fiscal deficits. And the way it would do that was through the receipt of tax revenues based on this inflated growth rate. But since private financial and economic institutions also miscalculated, this cannot be the sole explanation. Why were all the economic forecasts for FY 1982 wrong?

For one thing, the unexpected depreciation of the yen came as a surprise. With high U.S. interest rates causing an appreciation of the dollar against the yen, prices of imported raw materials climbed. Constrained by the already-large interest-rate differential, the Bank of Japan was unable to cut the official discount rate, which would have lowered interest rates and stimulated the economy. Second, exports declined despite the yen depreciation due to the sluggish world economy and persistent trade frictions with the United States and the European Community (EC). Export figures by the Ministry of Finance (MOF) show that 1982 exports slid 8.7 percent from the previous year in the first decline since 1952. Third, not even the more liberal loan and tax policies favoring home ownership led to the hoped-for rise in housing construction. In fact, housing starts for 1982 fell 6.5 percent to 1.14 million units and officials say that 1983's level will only be 1.15 million starts. And finally, unexpectedly, an increase in real income boosted personal consumption.

In preparing its FY 1983 forecast, however, the government has tried to be more realistic. Its models foresee revitalized private domestic demand, low inflation, meager government spending and a turnaround in exports, which it expects will produce 3.4 percent growth. Domestic demand is expected to lead the modest expansion, with external demand making up only 0.6 percentage points of the total. Personal consumption is expected to increase by 3.9 percent, housing investment by 2.6 percent and private capital investment by 2.9 percent. Consumer prices are projected to rise 3.3 percent, while the increase in wholesale prices is figured at only 1.1 percent. The current account will post a $9-billion surplus. Production will increase from 1.0 percent to 4.4 percent and employment will increase slightly.

As shown in Table 2, most private financial and economic institutions share this view that moderate economic growth can be achieved in FY 1983, and have turned in estimates ranging from less than 2.0 percent to over 4 percent. The most pessimistic forecast, by Dai-Ichi Kangyo Bank, calls for 1.8-percent growth; the most optimistic outlook is the 4.1-percent pickup seen by Mitsubishi Research Institute. In general, the expectation is that the Japanese economy will remain sluggish in the first half of the fiscal year, but will begin to perk up in the latter half, given overseas economic recovery and yen appreciation induced by falling U.S. interest rates. These lower rates will facilitate a drop in interest rates in Japan because the possibility of capital outflows will no longer be such a worry. The lower interest rates, in turn, will stimulate the economy and buoy private capital spending and housing construction.

What is unclear in these forecasts is the specific leading factor for economic growth. While Mitsubishi Research Institute predicts an increase in personal consumption based on its assumption that an income-tax cut will be passed, others predict more moderate consumer spending based on small wage increases. The lower interest rates, while a factor in private capital spending and housing investment, are not expected to have much momentum; nor will the austere budget planned for 1983 stimulate the economy. On the external scene, the assumptions of an upturn in the world economy have led forecasters to suggest a faster pace for Japanese exports, but it is likely that restrictive trade practices and mounting protectionism will brake this movement.

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Government Forecasts

Economic Planning Agency (EPA) — EPA forecasters emphasize the importance of macroeconomic results, such as employment, balance of payments and inflation. They are inclined to aim at achieving higher economic growth consistent with long-term economic plans. EPA, however, must absorb the recommendations of the Ministry of Finance (MOF) and the Ministry of International Trade and Industry (MITI): the former puts more emphasis on the country's fiscal balance and therefore supports higher nominal economic growth to produce higher tax revenues; the latter focuses on the balance of trade.

An analysis of Table 1 shows government forecasts were below actual results during the years of high economic growth and above after the oil crisis of 1973. These errors are partly because government forecasts are not purely an econometric exercise, but also take aim at a policy target. That is, the government may have to use the document to lever the economy on to the right track if necessary. This is particularly characteristic of EPA, which is a coordinating agency whose officials come from other ministries. The economic forecast is also influenced by the agency's director general. For example: in FY 1974, then-EPA Minister Takeo Fukuda, a proponent of low economic growth, argued that high growth could not continue due to Japan's limited resources — and predicted that economic growth would fall to 2.5 percent. A similar motive in FY 1982 affected the economic forecast authored under the direction of then-EPA Minister Toshio Komoto, a supporter of high economic growth. At the initial stages, EPA had in mind a 4-percent level, as did a number of other private institutions. But Mr. Komoto reportedly insisted on 6 percent, which he considered necessary to resolve the country's shortfall of tax revenues, unemployment and trade frictions. In short, EPA's analysis is influenced by political factors.

Ministry of International Trade and Industry (MITI) — The role of this ministry is to induce policy measures which will stimulate the economy by exaggerating economic problems. In particular, MITI keeps an eye on the state of industry. Its economists support stimulus measures including expenditures for public works and lower discount rates when the economy turns downward. The ministry works against any increase in the discount rate (or increase in taxes, or cuts in expenditures) that might be proposed to curtail inflation when the economy turns up. Particularly in downturn phases, MITI is very active in influencing the business community to support its recommendations for policy changes. Recently, though, neither the business community nor Keidanren have sought special stimulus measures because Keidanren has tried to emphasize slimming down the bloated government. As a result, MITI's voice has been weakened.

For MITI, the movement of goods is paramount; the agency is insensitive to trade in services. The main economic indicators, MITI says, are industrial production and shipments. While reliance on these indicators was justified in the high economic growth period, the recent data show that services now carry increased weight in total business transactions.

Ministry of Finance (MOF) — Finance analysts judge the state of the economy by the fiscal balance and are concerned about nominal economic growth and tax revenues. MOF seems to pay little attention to activities on the margin of the economy, that is, trade problems caused by increasing current-account surpluses or the implications of pressing for fiscal balance when a savings surplus prevails in the private sector.

In the high economic growth period, the MOF consistently underestimated growth. Based on this low projection, it then formulated a budget that produced a surplus. This made it possible to cut income taxes and spend additional funds on programs called for by politicians and other ministries. This technique, however, under recent conditions, implies lower tax revenues and makes it impossible to formulate a budget. Now the MOF has set higher nominal growth rates as a means of balancing the budget without resorting to bond financing. But these bloated forecasts brought shortfalls in tax revenues of ¥3.9 trillion ($138 billion) in FY 1981 and ¥4.1 trillion ($17.1 billion) in FY 1982. Even within MOF there are different allegiances: the budget bureau tends to predict high growth; while the tax bureau, which is responsible for tax revenues and tries to avoid shortages generally opts for lower figures.

Bank of Japan — For the Bank of Japan (BOJ), the first priority is stable prices. When forced to choose between economic stimulus or stable prices and stagflation, BOJ's choice is the latter, while MITI and EPA both incline toward stimulating the economy in order to raise employment. This emphasis on price stability, it should be noted, also leads BOJ to veer away from MITI's position during economic upturns, when it opposes further economic stimulation and stresses monetary restraint in the face of increasing prices. Therefore, the bank raises the official discount rate as early and quickly as possible, but cuts it late and reluctantly.

Private Forecasts

Private financial institutions, whose 1983 projections fall in a narrow range from below 2 to over 4 percent, are just as biased as the government, and until very recently, could be identified by their preferences. A comparison of business forecasts shows that banking institutions are consistently conservative, but securities companies, which were very optimistic, have been affected by the increasing importance of the bond market and the difference between expectations has been narrowed. As for individual economists, Osamu Shimomura is famous as a zero-growth supporter and Hisao Kanamori as his high-growth counterpart. Early on, Shimomura advocated high growth policies in the 1950s and supported the income doubling plan of Prime Minister Ikeda in 1960. But he turned to a zero-growth approach after the oil crisis, emphasizing the constraints energy supplies pose to the economy. Convinced that Japan will have to adjust to this pattern, he does not support stimulative policies or wage increases and regards fiscal reconstruction as essential.

On the other hand, Mr. Kanamori says that appropriate fiscal-monetary policies will keep Japan on a high-growth course and that fiscal balance can be maintained through tax cuts and public-works spending. Actual growth since the oil crisis has fallen below his estimates he says, because the government has not taken appropriate economic policies. Generally speaking, his point of view emphasizes the importance of manufacturing industries but ignores the weight of the service sector. Another leading economist, Toshihiko Yoshino, a former offical of the Bank of Japan, focuses on price movements. He cites inflation as the greatest danger and insists that economic policy has to be directed toward appreciation of the yen.

In the business community, Keidanren, the Federation of Economic Organizations, has a prominent role. Its recommendations represent the views of its member corporations and associations. Recently, Keidanren has begun to talk of a structural change in the economy, and has expressed doubts about the effects of macroeconomic policies because it says that demand for goods has already reached a saturation point. The organization would like to see the government stress individual micro measures, such as flexible application of the antitrust law to depressed industries.

The Long-Term Economic Outlook

The Japanese government's medium- and long-term economic plans are authored by the Economic Council, an advisory body which includes business executives, former government officials and academicians. Here, too, political intervention is a strong influence. Occasionally, members will resign from the council because they are unwilling to go along with the final document. At present, a revision of the current seven-year economic plan is under way to reflect the depressed level of growth since the oil crisis.

However, there is a difference of opinion in this matter. One group sees the big drop in growth from 10 percent in the 1960s to about 3 percent after the second oil crisis as a structural change which will remain unaffected by traditional measures to boost spending and investment. Others say the current recession has been aggravated by a lack of demand as a result of the increase in income transfer to the oil-producing countries and the remedy, they say, is fiscal policy. Reduction of the debt will follow economic recovery, they argue. This debate has been joined by Finance officials, who take the structural argument, and MITI, a proponent of intervention. Observers are convinced that the Finance Ministry's motives in taking this lower position are clear; that is, higher growth can be used to justify hikes in government expenditures and tax cuts — both of which will retard efforts to balance the budget.

MITI opts for a higher 5-percent figure, and assumes that demand exists for social infrastructure, housing and personal consumption. These officials say that 5-percent growth will contribute to decreasing fiscal deficits, help resolve trade imbalances by increasing imports of manufactured goods, assure full employment and enhance economic cooperation. The political market MITI serves would profit from an expansion. The effort now is to resolve these inter-agency conflicts before the summer when the new economic outlook is scheduled to be released.

Source: "Keiki Handan" (Economic Prospects), Nihon Keizai Shimbun, Tokyo, November 1982 (in Japanese).

For further information, contact Yoshio Nakamura.

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Table 1

Economic Growth Forecasts by the Japanese Government

Fiscal Year	Projected Growth Rate	Actual Growth Rate
1965	7.5%	5.7%
1966	7.5	11.4
1967	9.0	11.1
1968	7.6	13.0
1969	9.8	12.1
1970	11.1	8.3
1971	10.1	5.3
1972	7.7	9.7
1973	10.7	5.3
1974	2.5	-0.2
1975	4.3	3.6
1976	5.6	5.1
1977	6.7	5.3
1978	7.0	5.1
1979	6.3	5.3
1980	4.8	4.5
1981	5.3	3.3
1982	5.2	3.1
1983	3.4	---

Source: Economic Planning Agency

Table 2

Forecasts for Fiscal 1983 Economic Growth by Major Research Institutions

	Government	Mitsubishi Research Institute	Daiwa Securities Research Institute	Research Institute of National Economy	Nomura Research Institute	Fuji Bank	Nikkei Research Center	Dai-Ichi Kangyo Bank
Gross National Expenditure (in real terms)	3.4%	4.1%	3.4%	3.4%	3.3%	2.8%	2.7%	1.8%
Final Private Consumption Expenditure	3.9	3.7	3.0	3.5	2.9	3.3	3.2	2.1
Private Housing Investment	2.6	2.3	5.0	4.5	2.2	2.7	-0.6	0.8
Private Equipment Investment	2.9	3.3	2.3	2.7	4.3	2.1	0.9	0.8
Private Inventory Investment	---	13.9*	1.4	4.6	17.5	30.0	14.0	-4.9
Final Government Consumption Expenditure	---	2.3	2.3	---	2.2	0.4	3.1	2.4
Public Fixed Capital Formation	---	3.6	3.2	0.8	2.6	-1.2	1.8	-0.6
Exports of Goods and Services	---	0.9	2.5	5.4	4.0	2.9	2.8	1.8
Imports of Goods and Services	---	-4.4	-0.8	1.8	3.8	1.8	1.9	-0.1
Wholesale Prices	1.1	2.2	-0.4	1.0	-0.2	0.6	-0.3	0.1
Consumer Prices	3.3	4.4	3.3	1.8	3.3	2.4	2.7	2.5
Current Account Balance (in millions of dollars)	$9,000	$14,090	$8,635	$13,800	$12,200	$9,800	$8,319	$15,000
Yen-Dollar Exchange Rate	---	---	225.93	235.00	225.00	235.00	228.75	246.30

*Includes government inventory

Source: The Oriental Economist, February 1983

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REPORT

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Gibbons Subcommittee Examines U.S.-Japan Trade Problems

On the eve of the March 24 congressional trade mission to the Far East, the House Ways and Means Subcommittee focused attention last week on Japan's alleged industrial targeting practices. Although the panel considered such issues as the current degree of access in the Japanese market to competitive U.S. products, the yen/dollar currency misalignment, and Tokyo's efforts to implement its previously announced trade liberalization packages, most of the discussion centered on industrial policy. Judging by the

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Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January 1982	January 1983	November 1982	December 1982	January 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,191*	$ -859	$ -618*	$ 292*	$ 2,397*	$ -618*
Exports (f.o.b.)	149,522	137,651*	10,246	9,324*	9,988*	12,429*	9,324*
Imports (f.o.b.)	129,555	119,460*	11,105	9,942*	9,696*	10,032*	9,942*
Current Account Balance	4,770	6,896*	-1,892	-1,444*	-833*	1,706*	-1,444*
Long-Term Capital (net)	-6,449	-15,007*	-1,605	-621*	637*	-327*	-621*
Overall Balance	-2,144	-4,971	-2,668	-2,218	1,610	236	-2,218
International Reserves (end of period)	28,403	23,262	28,245	23,593	22,976	23,262	23,593
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,884*	-1,857	-1,590*	-411	1,468*	-1,590*
Exports (f.o.b.)	152,030	138,854*	10,303	9,212*	10,063	14,512*	9,212*
Cars	18,445	18,019*	1,425	1,623*	1,427	1,549*	1,623*
Steel	16,669	15,656*	1,166	853*	980	1,245*	853*
Imports (c.i.f.)	143,290	131,970*	12,160	10,802*	10,474	13,043*	10,802*
Crude Oil	53,343	46,266*	4,572	4,181*	4,066	4,048*	4,181*
Japan-U.S. Trade							
Trade Balance	13,312	12,178*	612	705*	950	962*	705*
Exports (f.o.b.)	38,609	36,341*	2,719	2,522*	2,726	3,006*	2,522*
Imports (c.i.f.)	25,297	24,162*	2,107	1,818*	1,776	2,044*	1,818*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥253.10	¥235.00	¥237.90
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-1,934	-1,352	-880	-683	-1,352
Exports (f.a.s)	21,823	20,966	1,786	1,601	1,815	1,803	1,601
Industrial Supplies	8,983	9,173	798	714	857	745	714
Food and Feed	5,896	4,971	358	373	407	389	373
Capital Goods	4,767	4,434	399	321	346	392	321
Consumer Goods	1,318	1,356	106	106	116	107	106
Imports (f.a.s.)	37,612	37,744	3,720	2,953	2,695	2,486	2,953
Automotive Products	12,950	12,890	1,294	1,101	892	910	1,101
Industrial Supplies	7,179	6,795	692	407	405	344	407
Consumer Goods	8,340	7,842	770	607	587	521	607
Capital Goods	8,589	9,530	878	790	765	669	790

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1980	1981	January-December 1981	January-December 1982	October 1982	November 1982	December 1982
Discount Rate (end of period)	7.25%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	9.2%	8.9%	8.9%	9.2%	8.3%	8.0%	7.9%
Industrial Production	7.0%	3.1%	3.1%	1.2%*	-3.6%	-0.7%	-0.3%*
Manufacturing Operating Rate	0.7%	-4.6%	-4.6%	-2.9%	-6.8%	-4.0%	-4.9%
Number of Bankruptcies	11.6%	-1.5%	-1.5%	-2.8%	-0.3%	-2.5%	-2.2%
Residential Construction Starts	-15.0%	-9.2%	-9.2%	-0.5%	14.8%	13.6%	2.1%
Job Openings to Applications (ratio)	0.75	0.68	0.68	0.61	0.58	0.59	0.60
Nominal Wages	6.3%	5.3%	5.3%	4.8%	4.8%	5.4%	2.3%
Labor Productivity	9.1%	3.5%	3.2%†	1.9%†	-1.0%	n.a.	n.a.
Wholesale Prices	17.8%	1.4%	1.4%	1.8%	2.0%	2.0%	0.9%
Consumer Prices	8.0%	4.9%	4.9%	2.7%	3.1%	2.3%	1.8%
Yen-Based Export Prices	8.6%	1.2%	1.2%	3.9%	2.9%	2.8%	-0.1%
Yen-Based Import Prices	44.7%	1.6%	1.6%	7.9%	10.7%	11.4%	7.6%

*Preliminary
†Through October of each year only.

For Japan's most recent GNP data, see JEI Report No. 4B, January 28, 1983.

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JAPAN'S EXPANDING MANUFACTURING PRESENCE: 1982 UPDATE

Summary

The nonstop fall in the yen's value from mid-1981 through much of 1982 put a damper on Japanese investment in U.S. production facilities, as did the deepening domestic recession and sluggish business conditions in Japan. New plant construction and acquisition activity dropped last year to its lowest level since at least 1978, the start of the second upsurge in Japanese investment in the American manufacturing sector. This slowdown was just temporary, though. Since the start of 1983, a number of Japanese corporations have announced firm plans to manufacture in the United States. Other companies can be expected to join them as the American economy recovers and the yen appreciates. These new investments will add several thousand positions to the 70,000 or so jobs already generated by Japanese manufacturers in the United States.

Japan's 1982 Investments in U.S. Manufacturing Facilities

Japanese investment activity in the U.S. manufacturing sector, which had been on the upswing since 1978, slowed in 1982, curtailed by the continuing slide in the value of the yen, Japanese companies' deteriorating balance sheets, and depressed economic conditions in this country. Only 19 manufacturing companies in which Japanese corporate investors have a majority stake were set up or acquired last year, compared with 32 such investments in 1981, a new study by the Japan Economic Institute (JEI) indicates. Moreover, Japanese corporations obtained minority interests of at least 10 percent but less than 50 percent in just three U.S. businesses during 1982, down from eight the year before.

The depreciation of the yen, which dropped to an average ¥249 in 1982 after fluctuating in the ¥210-to-¥227 range during the 1978-81 period, was probably the major obstacle to greater Japanese investment in U.S. manufacturing facilities last year. The fall in the yen's value had a double-barreled effect: it boosted the yen cost of building plants in this country or of acquiring existing American companies and, at the same time, cut the dollar cost of Japanese exports, thereby making onshore production a relatively less attractive way of serving U.S. markets. Potential first-time Japanese investors, particularly small- and medium-sized firms, were also deterred by two back-to-back years of mediocre business results, which dictated a wait-and-see attitude toward capital spending, especially in the depressed U.S. economy. For some Japanese companies, the deepening recession in the United States was the determining factor, forcing them to indefinitely shelve or at least temporarily postpone firm plans for U.S. plants.

The 22 American manufacturing companies owned wholly or in part by Japanese investors that were identified in JEI's 1982-update survey generally match the profile of Japan's earlier manufacturing investments in the United States, drawn from the 1980 benchmark study (see JEI Report No. 15, April 17, 1981) and the 1981 update (see JEI Report No. 10A, March 12, 1982). For example, like their predecessors, Japanese corporations establishing a production base in the United States during 1982 favored new plant construction over the purchase of existing American firms, but for the second year in a row acquisitions were relatively more prevalent than in the period through 1980. Instead of being outnumbered two to one by new investments, acquisitions accounted for 10 of the 22 companies joining the ranks of Japanese-affiliated U.S. manufacturing businesses in 1982, including the purchase by Bridgestone Tire Co., Ltd. of Firestone Tire & Rubber Co.'s radial truck tire plant. One factor tilting the investment mix toward acquisitions in the 1980s is that Japanese manufacturers already turning out products in the United States are starting to follow the lead of the trading companies and expand their manufacturing presence through takeovers. Sony Corp. and Kirin Brewery Co., Ltd. were last year's major examples of this new breed of Japanese investor.

With new plant construction still the preferred investment route for Japanese investors moving into the U.S. manufacturing sector for the first time and with most acquisitions involving the purchase of single-plant companies, it is no surprise that the 22 American production operations newly set up or bought by Japanese businesses in 1982 had only 24 plants onstream or under construction at year end. The vast majority of established Japanese-owned manufacturing ventures still produce at just one location, but a growing number of them are building additional plants as they outgrow existing production facilities or expand into related product lines. Examples of this trend in 1982 were the new factory Mitsubishi Consumer Electronics America, Inc. opened and the plant NEC Electronics U.S.A. Inc. had under construction.

California continued to attract a disproportionate share of Japanese manufacturing investment during 1982, including new investments as well as acquisitions. Five of the 24 plants in operation or under construction at year end are located there, as are the second plants of Mitsubishi Consumer Electronics and NEC Electronics. New Jersey and Georgia were also highly successful in drawing Japanese-owned factories, with each adding two new plants to their rolls. So was Pennsylvania with one new investment and an acquisition. New plant construction in Massachusetts, Missouri and Oregon and acquisitions in Michigan, New Hampshire and Washington prove once again that, outside of California, Japanese corporate investors in the United States have not shown a marked preference for Sunbelt or southeastern U.S. production locations, although Florida as well as Tennessee picked up a Japanese-owned factory through acquisition.

One area where the 19 majority-owned companies new to the U.S. manufacturing sector differ from established firms is in employment scale, since they employ or expect

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to hire when operational smaller work forces on average than earlier arrivals. Nine of the 19 have or project a payroll of 49 people or less, compared with only one-fourth of the companies identified in JEI's benchmark study. Four employ between 50 and 99 workers or have targeted employment in that range, while three have a work force of 100-to-199 people. In contrast, just two firms have or forecast employment in the 300-to-500 range, a level exceeded only by Bridgestone Tire Manufacturing (U.S.A.), Inc. with 900 employees. Still, the 16 companies already in operation and Mitsubishi Consumer Electronics' second plant have created or saved close to 2,300 jobs for American workers. Moreover, another 700 jobs will be generated when the three firms with plants under construction and the new NEC Electronics facility go onstream later this year or in 1984.

Japan's Manufacturing Holdings in the United States: The New Tally

At the end of 1982, Japanese corporate investors had a controlling interest in 292 U.S. manufacturing companies, including Nissan Motor Manufacturing Corp. U.S.A. and four other firms that were still in the plant-construction stage. Among the largest operations, whether measured by investment, employment, sales or all three indicators, were Alumax Inc., an integrated aluminum manufacturer jointly owned by Mitsui & Co., Ltd., Nippon Steel Corp. and AMAX Inc. that has 55 domestic plants; Honda of America Manufacturing, Inc., which started assembling cars at its Ohio plant in November and expects to employ 2,000 people by mid-1984; Kyocera International, Inc., a California-based maker of ceramic packages for integrated circuits; Matsushita Industrial Co., a manufacturer of color television sets and microwave ovens located in the Chicago suburbs; Nissan, slated to begin operation of its Tennessee pickup truck plant this summer and to employ 2,650 workers at full capacity in mid-1984; Sanyo Mfg. Corp., which produces color television sets and microwave ovens in Arkansas; color television set maker Sony Corp. of America, based in California; Sony Magnetic Products Inc. of America, an Alabama manufacturer of cassette tapes; and Whitney-Fidalgo Seafoods, Inc., an Alaska and Washington fish processor owned by Kyokuyo Co., Ltd. In addition to these 292 U.S. manufacturing ventures, which are primarily wholly owned subsidiaries, Japanese corporations held minority interests in 26 other American manufacturers, including shares in two companies on Fortune's list of the 1,000 largest domestic firms, Harnischfeger Corp. and Munsingwear, Inc.

The 318 U.S. manufacturing companies owned wholly or in part by Japanese investors had 458 plants in operation or under construction at year-end 1982. California, home to 124 Japanese-affiliated factories, continued to top the state list of plant sites with its heavy concentration of facilities making industrial and consumer electronics products. In the number-two spot was Alaska, with fish-processing plants accounting for most of its 35 factories. Next on the list were New Jersey, the site of 24 manufacturing concerns owned by Japanese companies, Texas, the location of 23 plants, and Washington, where 20 factories were in operation. In sixth place was Georgia with 18 manufacturing facilities, followed by Illinois and North Carolina, each of which had attracted 17 plants. Other states that were successful in drawing relatively large numbers of Japanese investors to in-state plant sites were New York (16), Pennsylvania (14), Ohio (13), Michigan (12) and Tennessee (11).

Color television sets, stereo equipment, microwave ovens, integrated circuits, telephone equipment, capacitors, bearings and machine tools are among the product lines where Japanese companies have the largest number of U.S. manufacturing facilities. In deciding to supply these products from onshore plants rather than from factories in Japan, Japanese exporters have been influenced in varying degree by the need to cut transportation costs, streamline distribution, maintain closer customer contact and offset the yen's appreciation. For many makers of these products, though, the threat of a protectionist backlash or the erection of trade barriers has tipped the scales in favor of

U.S. production. In other manufacturing lines where Japanese investors are well represented, like fish processing, lumber and wood products, and certain processed food products, the availability of raw materials has been a major drawing card. Makers of plastic products have been attracted to this country by its less expensive petrochemical derivatives, while lower utility rates and other U.S. cost advantages have no doubt made Alumax a good investment for Mitsui and Nippon Steel. Other Japanese companies, facing limited opportunities for growth at home, have moved into the U.S. manufacturing sector to boost revenues and income. Finally, a small but increasing number of parts suppliers, especially in the automotive field, are following Japanese end users of their products to the United States and also building or acquiring domestic manufacturing facilities.

Although the number of U.S. manufacturing companies owned wholly or in part by Japanese corporations is modest in comparison with Canadian and European investments, these firms are starting to have a noticeable impact in creating or maintaining jobs for Americans, both directly and indirectly through their purchases of goods and services. The 292 majority-owned manufacturing concerns currently in operation already have an estimated 65,600 people on their payrolls. Another 4,400 or so positions will be added to this total later this year and in 1984 as Honda and Nissan gear their automotive assembly plants up to full-capacity operation and plants now under construction go onstream. Moreover, with some new firms still hiring and an economic recovery on the horizon, other Americans will undoubtedly find jobs in Japanese-owned manufacturing plants within the year.

For further information, contact Susan MacKnight.

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JEI's Investment Survey

The Japan Economic Institute's study of U.S. manufacturing companies owned by or affiliated with Japanese investors was limited to firms that had plants in operation or under construction on December 31, 1982. This cut-off date eliminated a number of companies that had definite plans to build manufacturing facilities in the United States but had not broken ground by year end, as well as several acquisitions that had not been finalized.

The results of the 1982-update survey are contained in three appendices, which also include the information from the 1981 update. The main appendix gives, in alphabetical order, the full name of each U.S. manufacturing company owned wholly or in part by Japanese investors; the location of its plant or plants; the full name of what is known as the company's ultimate beneficial owner(s); the share of stock held by the owner(s); whether the company was a new investment or an acquisition; the company's major product line(s); the approximate or actual number of people employed by the company, if available; and when the company began production or, in the case of acquisitions, when the company was bought by Japanese investors. The second appendix presents a state-by-state listing of plant locations, while the third one groups the products made in terms of four-digit Standard Industrial Classification codes.

A fourth appendix, new this year, lists companies that have gone out of business and plants that have closed since the 1980 benchmark study and the 1981 update were published. This information was obtained from publicly available sources. No attempt was made to resurvey all the previously listed companies.

Appendix 1: Alphabetic Listing of U.S. Manufacturing Affiliates of Japanese Companies

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
•ALCOA-NEC Communications Corp.	Sidney, OH	Nippon Electric Co., Ltd. Aluminum Co. of America	49% 51	New	Satellite television receiving systems	15	1982
ATR Wire and Cable Co.	Danville, KY	Tokyo Rope Manufacturing Co., Ltd. Mitsubishi Corp. C. Itoh & Co., Ltd.	60 20 20	Acquired	Steel cord/bead wire for tires	420	1981
Alloy Tool Steel Inc.	Santa Fe Springs, CA	Nissho Iwai Corp. Nippon Koshuha Steel Co., Ltd.	35 35	New	Steel processing	30	1974
Alloy Tool Steel of Texas Inc.	Hutchins, TX	Nissho Iwai Corp. Nippon Koshuha Steel Co., Ltd.	18 18	New	Steel processing	5	1981
Alpha Biochemical Corp.	Richland, WA	Kanegafuchi Chemical Industry Co., Ltd.	100	New	Binder for fish feed	20	1982
Alumax Inc.		Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	45 5 50	Acquired			1974
Alumax Extrusions, Inc.	Catawba, NC	Alumax Inc.	100	New	Aluminum extruded shapes	n.a.	1981
Alumax Fabricated Products, Inc.	Tempe, AZ	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
Alumax Fabricated Products, Inc.	Anaheim, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
Alumax Fabricated Products, Inc.	Sacramento, CA	Alumax Inc.	100	Acquired	Aluminum products for housing aftermarket	n.a.	1981
Kawneer Co., Inc.	Springdale, AR	Alumax Inc.	100	New	Architectural aluminum products	n.a.	1981
Amano-International Enzyme Co., Inc.	Troy, VA	Amano Pharmaceutical Co., Ltd. Boehringer International Enzyme Inc.	47.5 47.5	New	Enzymes	7	1981
American Industries Co., Inc.	Guasti, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar, cooking wines	75	1981
American Industries Co., Inc.	San Francisco, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar, cooking wines, sauces		1981
American Industries Co., Inc.	Watsonville, CA	Nakano Vinegar Co., Ltd.	100	Acquired	Vinegar		1981
Amanack, Inc.	Stockton, CA	Chuoken Sembei Inc.	100	New	Rice crackers	11	1981
Bellemar Parts Industries Inc.	Marysville, OH	Honda Motor Co., Ltd. Sankei Giken Kogyo Co., Ltd. Tokyo Seat Co., Ltd.	80 10 10	New	Automotive seat assemblies, exhaust silencer systems	200	1982
Bering Sea Fisheries, Inc.	Mouth of Yukon, AK	Marubeni Corp.	25	Acquired	Frozen fish	40	1972
•Bio Kyowa Inc.	Cape Girardeau, MO	Kyowa Hakko Kogyo Co., Ltd.	100	New	Lysine (feedstuff amino acid additive)	60*	1984*
•Bridgestone Tire Manufacturing (U.S.A.), Inc.	LaVergne, TN	Bridgestone Tire Co., Ltd.	100	Acquired	Radial truck tires	900	1982
Bunmeido of Hawaii Ltd.	Honolulu, HI	Bunmeido Confectionery Co., Ltd.	100	New	Bakery products	8	1965

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Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
CTY Corp.	San Marcos, CA	Taiyo Yuden Co., Ltd.	100	New	Axial capacitors	40	1981
Caribe Isoprene Corp.	Penuelas, PR	Nippon Zeon Co., Ltd. Mitsubishi Corp.	50 40	New	Isoprene monomer, dicyclopentadiene, piperylene	50	1975
Caribe Tuna Inc.	Ponce, PR	Mitsubishi Corp.	100	Acquired	Canned fish	500	1981
•Cast Forge Co.	Howell, MI	Nippon Light Metal Co., Ltd. Kelsey-Hayes Co.	20 80	Acquired	Aluminum wheels/other die-cast automotive parts	100	1982
Cathra International Corp.	St. Paul, MN	Gunze Sangyo, Inc Tokyo Lease Co., Ltd.	30	Acquired	Medical diagnostic equipment	22	1981
Chickasha Cotton Oil Co.	Casa Grande, AZ	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Clinton, OK	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Harlingen, TX	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
Chickasha Cotton Oil Co.	Lamesa, TX	Toyo Menka Kaisha, Ltd.	100	Acquired	Cottonseed oil	70	1981
•Coca-Cola Bottling Co.	Salem, NH	Kirin Brewery Co., Ltd.	100	Acquired	Soft drinks	187	1982
Concise Casting Corp.	Hayward, CA	Hitachi Metals, Ltd.	100	Acquired	Aluminum castings	95	1981
Daiichiya Love's Bakery Inc.	Honolulu, HI	Daiichiya Baking Co., Ltd	100	Acquired	Bakery products	240	1981
Daiwa Golf Co.	Gardena, CA	Daiwa Seiko, Inc.	100	New	Golf clubs	20	1981
•Diamond Plastics Corp.	Grand Island, NE	Mitsubishi Corp.	100	Acquired	Polyvinyl chloride pipes	115	1982
•Diamond Plastics Corp.	Lubbock, TX	Mitsubishi Corp.	100	Acquired	Polyvinyl chloride pipes		1982
Dutch Harbor Seafoods Co., Inc.	Dutch Harbor, AK	Nippon Suisan Kaisha Ltd	25	New	Frozen fish	100	1976
Economic Salon, Ltd.	New York, NY	Keizai Salon Co., Ltd.	100	New	Periodicals publishing	10	1971
•Enway Inc.	Clackamas, OR	Restaurant Skylark Co., Ltd.	51	New	Frozen potato products	10	1982
First Metals, Inc.	Houston, TX	Toyo Menka Kaisha, Ltd.	100	New	Steel processing	22	1978
Forman Industries Inc.	Hayward, CA	Kawasho Corp.	100	Acquired	Sheet-metal ducts	35	1979
•Fotomat Corp.	St. Louis, MO	Konishiroku Photo Industry Co., Ltd.	20	Acquired	Photographic chemicals	30	1982
•Fotomat Corp.	Springdale, OH	Konishiroku Photo Industry Co., Ltd.	20	Acquired	Kiosks	10	1982
Fuji Cone Inc.	Clinton, NC	Fuji Cone Works Ltd. International Jensen Inc.	50 50	New	Paper cones for stereo speakers	85	1981
Fujitec Industries, Inc.	Lebanon, OH	Fujitec Co., Ltd.	100	New	Elevators, escalators	500*	1983*
Halco Fence & Wire Co.	Dallas, TX	C. Itoh & Co., Ltd.	100	Acquired	Chain link	200	1980
Harbor Seafood Co., Inc.	Wrangell, AK	Alaska Pulp Co., Ltd.	100	Acquired	Canned/frozen fish	80	1974
Harnischfeger Corp.	Cedar Rapids, IA	Kobe Steel, Ltd.	10	Acquired	Hydraulic-truck/rough-terrain cranes	3,000	1981
Harnischfeger Corp.	Oak Creek, WI	Kobe Steel, Ltd.	10	Acquired	Overhead traveling cranes, hoists, material-handling systems		1981
Harnischfeger Corp.	W. Milwaukee, WI	Kobe Steel, Ltd.	10	Acquired	Overhead traveling cranes, mining shovels, draglines		1981
•High Voltage Breakers, Inc.	Norcross, GA	Hitachi, Ltd. General Electric Co.	67 33	New	Circuit breakers for power plants/ transmission lines	15	1982
Hitachi Consumer Products of America Inc.	Anaheim, CA	Hitachi, Ltd.	100	New	Projection color television sets	100	1982
Homma Golf, Inc.	Honolulu, HI	Homma Corp.	100	New	Golf clubs	36	1978

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Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
IDEC Systems & Controls Corp.	Santa Clara, CA	Izumi Denki Corp.	100	New	Relays, sockets, switches/other electrical industrial components	70	1975
IKS American Corp.	Gardena, CA	Izumoto Seiko Co., Ltd.	100	New	Ball bearings	18	1976
International Leadframe Corp.	Sunnyvale, CA	Mitsui Mfg. Co., Ltd.	100	New	Lead frames for integrated circuits	21	1980
International Titanium Inc.	Moses Lake, WA	Ishizuka Research Institute Mitsui & Co., Ltd.	50 30	New	Titanium sponge	120	1982
•Kato Spring of Georgia Inc.	Norcross, GA	Kato Spring Works Co., Ltd.	100	New	Precision springs	8	1982
Kel-Am, Inc.	Eldon, MO	Kel Corp.	100	New	Connectors	30	1978
Key Pharmaceuticals, Inc.	Miami, FL	Mitsubishi Chemical Industries, Ltd.	10	Acquired	Ethical pharmaceuticals	n.a.	1979
Kodiak King Crab, Inc.	Juneau, AK	Marubeni Corp. Ocean Beauty Seafoods Inc.	n.a. n.a.	New	Frozen fish	300	1973
Kodiak King Crab, Inc.	Kodiak, AK	Marubeni Corp. Ocean Beauty Seafoods Inc.	n.a. n.a.	New	Canned/frozen fish		1973
•Lafayette Metal Service Corp.	Long Beach, CA	C. Itoh & Co., Ltd. Nuova Italsider S.p.A.	81 19	Acquired	Steel processing	30	1982
LeBlond Makino Machine Tool Co.	Cincinnati, OH	Makino Milling Machine Co., Ltd. LeBlond Inc.	51 49	Acquired	Numerically controlled lathes, machining centers, numerical controls	850	1981
•MCI Inc.	Fort Lauderdale, FL	Sony Corp.	100	Acquired	Recording studio equipment	384	1982
MCI Optinix Inc.	Morristown, NJ	Mitsubishi Chemical Industries, Ltd.	100	Acquired	X-ray intensifying screens for medical use	15	1981
Machine Specialties Co.	Lincoln, RI	Bando Chemical Industries, Ltd.	100	Acquired	Pulleys	30	1979
Master Fence Fittings Inc.	La Habra, CA	C. Itoh & Co., Ltd.	100	Acquired	Fittings for metal fencing	300	1977
•Matsushita Electric Components Co.	Palo Alto, CA	Matsushita Electric Industrial Co., Ltd.	100	New	Integrated circuits	35	1983
Matsushita Electric of Puerto Rico, Inc.	Caguas, PR	Matsushita Electric Industrial Co., Ltd.	100	New	Stereo speakers, record changers, speaker boxes, motors for phonographs/audio equipment	720	1965
Megatool Inc.	Buena Park, CA	Union Tool Co., Ltd.	51	New	Carbide drills	17	1982
Memorex DIC Corp.	Santa Clara, CA	Dainippon Ink & Chemicals Inc. Burroughs Corp.	43 57	Acquired	Toner/developer for copiers, duplicators/printers	35	1981
•Mitsubishi Consumer Electronics America, Inc.	Santa Ana, CA	Mitsubishi Electric Corp.	100	New	Projection color television sets	80	1982
Mitutoyo Corp.	City of Industry, CA	Mitutoyo Mfg. Co., Ltd.	100	New	Calipers, micrometers	30	1979
Norpac, Inc.	Cordova, AK	Nippon Suisan Kaisha, Ltd. Mitsui & Co., Ltd.	49 49	Acquired	Canned fish	100	1973

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Munsingwear, Inc.	Guin, AL	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel	3,600	1981
Munsingwear, Inc.	Hamilton, AL	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Synthetic fabrics		1981
Munsingwear, Inc.	Montgomery, MN	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
Munsingwear, Inc.	New Albany, MS	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Fairmont, NC	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
Munsingwear, Inc.	Red Spring, NC	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Cotton fabrics		1981
Munsingwear, Inc.	Hominy, OK	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
Munsingwear, Inc.	Athens, TX	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Paris, TX	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Women's intimate apparel		1981
Munsingwear, Inc.	Ashland, WI	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	10 10 10	Acquired	Men's/boys' shirts, underwear, nightwear		1981
•NEC Electronics U.S.A. Inc.	Roseville, CA	Nippon Electric Co., Ltd.	100	New	Integrated circuits	200*	1987*
•NEC Information Systems Inc.	Boxborough, MA	Nippon Electric Co., Ltd.	100	New	Computers/peripheral equipment	425*	1984*
Neptune Packing Corp.	Mayaguez, PR	Mitsui & Co., Ltd.	100	Acquired	Canned fish	500	1973
Nichimo Northwest, Inc.	Everson, WA	Nichimo Co., Ltd. Northwest Net & Twine, Inc.	70 30	New	Gill nets	8	1982
Nikko Wolverine Inc.	Dearborn Heights, MI	Nippon Mining Co., Ltd. C. Itoh & Co., Ltd. UOP Inc.	51 29 20	Acquired	Titanium/zirconium tubes/pipe	60	1981
Nintendo of America, Inc.	Seattle, WA	Nintendo Co., Ltd.	100	New	Video game machines	40	1982
North American Brine Resources	Kingfisher County, OK (three sites)	United Resources Industry Co., Ltd. Mitsui & Co., Ltd. Beard Oil Co.	50 10 40	New	Iodine	5	1982

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
North Pacific Processors Inc.	Cordova, AK	Marubeni Corp.	100	New	Canned/frozen fish	450	1972
North Pacific Processors Inc.	Kodiak, AK	Marubeni Corp.	100	New	Canned/frozen fish		1972
North Pacific Processors Inc.	Kenai, AK	Marubeni Corp.	100	New	Canned/frozen fish		1972
Nutrius Inc.	Van Buren, AR	Mitsui & Co., Ltd.	100	Acquired	Food additives	115	1981
Nutrius Inc.	Fresno, CA	Mitsui & Co., Ltd.	100	Acquired	Food additives		1981
Nutrius Inc.	Louisville, KY	Mitsui & Co., Ltd.	100	Acquired	Food additives		1981
Olympic Wood Products Inc.	Shelton, WA	Takeuchi Lumber Co., Ltd. Kondo Corp. Aiba Kogyo Co., Ltd.	30 60 10	New	Lumber	15	1982
Optical Information Systems Inc.	Elmsford, NY	Mitsubishi Chemical Industries, Ltd.	100	Acquired	Semiconductor laser devices/subsystems	100	1981
Orange Bakery Inc.	Irvine, CA	Rheon Automatic Machinery Co., Ltd.	100	New	Bakery products	50	1979
Orient Shimasaki Chemical Corp.	Newark, NJ	Shimasaki Corp. Orient Chemical Industries Co., Ltd.	n.a. n.a.	New	Nigrosine (black dye)	n.a.	1981
Pace Products Inc.	Dallas, TX	Fuji Koki Mfg. Co., Ltd. Virginia Chemicals Inc.	50 50	New	Expansion valves for automotive air conditioning systems	15	1982
•Pacific Propeller, Inc.	Kent, WA	Minebea Co., Ltd.	66	Acquired	Aircraft propellers	60	1982
Pearl International Corp.	Nashville, TN	Pearl Musical Instrument Co.	100	New	Musical drums	65	1979
Peter Pan Seafoods Inc.	Dillingham, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Canned fish	90	1979
Peter Pan Seafoods Inc.	King Cove, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Canned/frozen fish	290	1979
Peter Pan Seafoods Inc.	Port Moller, AK	Nichiro Gyogyo Kaisha, Ltd.	100	Acquired	Frozen fish	170	1979
•Pioneer Video, Inc.	Carson, CA	Pioneer Electronic Corp.	100	Acquired	Video discs	150	1982
Rakuyo Ken U.S.A. Inc.	Honolulu, HI	Rakuyo Shokuhin Co., Ltd.	100	New	Shumai	8	1981
Ricoh Electronics, Inc.	Santa Ana, CA	Ricoh Co., Ltd.	100	New	Dry toner for copiers	50	1982
S & B International Corp.	Torrance, CA	S & B Shokuhin Co., Ltd.	100	New	Seasoning mixes	4	1975
SMK Manufacturing Inc.	Placentia, CA	Showa Musen Kogyo Co., Ltd.	100	Acquired	Connectors	100	1981
Sanoh Manufacturing Corp.	San Diego, CA	Sanoh Industrial Co., Ltd. Sanyo Electric Co., Ltd.	80 20	New	Refrigerator parts	27	1981
Shindo International, Inc.	New York, NY	Shindo Shashin Seihan K.K.	100	New	Color separation, offset printing	n.a.	1978
•Sierracin Glass Transparencies Inc.	Sylmar, CA	Asahi Glass Co., Ltd. Sierracin Corp.	50 50	New	Glass transparencies for aircraft	50	1982
Sony Magnetic Products Inc. of America	Laredo, TX	Sony Corp.	100	New	Audio cassette tapes	48	1979
Southern Metal Service, Inc.	Gulfport, MS	Kanematsu-Gosho, Ltd.	100	New	Steel processing	35	1973
Stanley Electric U.S. Co., Inc.	London, OH	Stanley Electric Co., Ltd.	100	New	Automotive/motorcycle lighting equipment	50	1982

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
TNS Mills, Inc.	Spartanburg, SC	Tsuzuki Spinning Co., Ltd.	100	New	Cotton-blend sheeting	100	1982
•TYK Swank Refractories Co.	Irvona, PA	Tokyo Yogyo Co., Ltd.	100	Acquired	Steel industry refractory products	30	1982
Templock/AFM Inc.	Carpinteria, CA	Nippon Automatic Fine Machinery Co., Ltd.	39	New	Heat-shrinkable plastic material application machinery	n.a.	1981
		Marubun Corp.	10				
		Templock Corp.	51				
Thin Film Technology Corp.	North Mankato, MN	Susumu Co., Ltd.	100	New	Thin-film resistive electronic components	50	1982
Togiak Fisheries, Inc.	Togiak, AK	Marubeni Corp.	Majority share	Acquired	Canned/frozen fish	140	1972
•Tokai of America Inc.	Rancho Cucamonga, CA	Tokai Seiki Co., Ltd.	100	New	Disposable cigarette lighters	40	1982
Tomoegawa (U.S.A.) Inc.	Wheeling, IL	Tomoegawa Paper Co., Ltd.	100	New	Toner/developer/other consummable supplies for photocopying industry	50	1980
Totaku America Corp.	Compton, CA	Totaku Industries Inc.	100	New	Plastic/rubber flexible hose	50	1974
•Toyojemco, Ltd.	York, PA	Japan Automatic Machine Co., Ltd.	50	New	Components for automatic crimping machinery	15*	1983*
		Oriental Terminal Products Co., Ltd.	50				
UGM, Inc.	Santa Clara, CA	Tokyo Tan-Ichi Co., Ltd.	100	New	Metal stampings for integrated circuit lead frames	9	1976
•U.S. Fuji Electric Inc.	Piscataway, NJ	Fuji Electric Co., Ltd.	100	New	Photo-sensitive drums for copiers	30	1983
•US JVC Corp.	Elmwood Park, NJ	Victor Co. of Japan, Ltd.	100	New	Color television sets	45	1982
USR Optinix Inc.	Hackettstown, NJ	Mitsubishi Chemical Industries, Ltd.	100	Acquired	Fluorescent material for cathode ray tube displays	50	1981
Union Inc.	Costa Mesa, CA	Union Trading Co., Inc.	100	New	Instant noodles	120	1976
Universal Seafoods Ltd.	Dutch Harbor, AK	Nippon Suisan Kaisha, Ltd.	47	New	Frozen fish	100	1975
Universal Seafoods Ltd.	Redmond, WA	Nippon Suisan Kaisha, Ltd.	47	New	Frozen fish	200	1975
VHD Disc Manufacturing Co.	Irvine, CA	Victor Co. of Japan, Ltd.	25	New	Video discs	150	1981
		Matsushita Electric Industrial Co., Ltd.	12.5				
		General Electric Co.	25				
		Thorn EMI Ltd.	37.5				
Wards Cove Packing Co., Inc.	Alitak, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish	1,500	1973
Wards Cove Packing Co., Inc.	Ekuk, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Excursion Inlet, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Icy Cape, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Kenai, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Ketchikan, AK	Marubeni Corp.	Minority share	Acquired	Canned fish		1973
Wards Cove Packing Co., Inc.	Naknek, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973
Wards Cove Packing Co., Inc.	Port Bailey, AK	Marubeni Corp.	Minority share	Acquired	Canned/frozen fish		1973

Company	Plant Location	Parent	Share	New or Acquired	Product Line	Employees	Year Plant Opened or Acquired
Western Alaska Fisheries, Inc.	Kodiak, AK	Taiyo Fishery Co., Ltd.	100	New	Canned/frozen fish	35	1963
Whitney-Fidalgo Seafoods, Inc.	Anchorage, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned/frozen fish	3,000	1973
Whitney-Fidalgo Seafoods, Inc.	Dutch Harbor, AK	Kyokuyo Co., Ltd.	98	Acquired	Frozen fish		1973
Whitney-Fidalgo Seafoods, Inc.	Kodiak, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Naknek, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Petersburg, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Port Graham, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Uyak, AK	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Anacortes, WA	Kyokuyo Co., Ltd.	98	Acquired	Canned fish		1973
Whitney-Fidalgo Seafoods, Inc.	Seattle, WA	Kyokuyo Co., Ltd.	98	Acquired	Frozen fish		1973

n.a. not available

* Projected

• Previously unlisted plants that went into operation during 1982 or were under construction on December 31, 1982, as well as acquisitions that were finalized in 1982.

Appendix 2: U.S. Manufacturing Affiliates of Japanese Companies by State

Alabama
Munsingwear, Inc. (2)

Alaska
Bering Sea Fisheries, Inc.
Dutch Harbor Seafoods Co., Inc.
Harbor Seafood Co., Inc.
Kodiak King Crab, Inc. (2)
Norpac, Inc.
North Pacific Processors Inc. (3)
Peter Pan Seafoods Inc. (3)
Togiak Fisheries, Inc.
Universal Seafoods Ltd.
Wards Cove Packing Co., Inc. (8)
Western Alaska Fisheries, Inc.
Whitney-Fidalgo Seafoods, Inc. (7)

Arizona
Alumax Inc., Alumax Fabricated Products, Inc.
Chickasha Cotton Oil Co.

Arkansas
Alumax Inc., Kawneer Co., Inc.
Nutrius Inc.

California
Alloy Tool Steel Inc.
Alumax Inc., Alumax Fabricated Products, Inc. (2)
American Industries Co., Inc. (3)
Amsnack, Inc.
CTY Corp.
Concise Casting Corp.
Daiwa Golf Co.
Forman Industries Inc.
Hitachi Consumer Products of America Inc.
IDEC Systems & Controls Corp.
IKS American Corp.
International Leadframe Corp.
•Lafayette Metal Service Corp.
Master Fence Fittings Inc.
•Matsushita Electronic Components Co.
Megatool Inc.
Memorex DIC Corp.
•Mitsubishi Consumer Electronics America, Inc.
Mitutoyo Corp.
•NEC Electronics U.S.A. Inc.
Nutrius Inc.
Orange Bakery Inc.
•Pioneer Video, Inc.
Ricoh Electronics, Inc.
S & B International Corp.
SMK Manufacturing Inc.
Sanoh Manufacturing Corp.
•Sierracin Glass Transparencies Inc.
Templock/AFM Inc.
•Tokai of America Inc.
Totaku America Corp.
UGM, Inc.
Union Inc.
VHD Disc Manufacturing Co.

Colorado
No additional listings

Connecticut
No additional listings

Delaware
No additional listings

Florida
Key Pharmaceuticals, Inc.
•MCI Inc.

Georgia
•High Voltage Breakers, Inc.
•Kato Spring of Georgia Inc.

Hawaii
Bunmeido of Hawaii Ltd.
Daiichiya Love's Bakery Inc.
Homma Golf, Inc.
Rakuyo Ken U.S.A. Inc.

Idaho
No additional listings

Illinois
Tomoegawa (U.S.A.) Inc.

Indiana
No additional listings

Iowa
Harnischfeger Corp.

Kansas
No additional listings

Kentucky
ATR Wire and Cable Co.
Nutrius Inc.

Louisiana
No additional listings

Maine
No additional listings

Maryland
No additional listings

Massachusetts
•NEC Information Systems, Inc.

Michigan
•Cast Forge Co.
Nikko Wolverine Inc.

Minnesota
Cathra International Corp.
Munsingwear, Inc.
Thin Film Technology Corp.

Mississippi
Munsingwear, Inc.
Southern Metal Service, Inc.

Missouri
•Bio Kyowa Inc.
•Fotomat Corp.
Kal-Am, Inc.

Montana
No additional listings

Nebraska
•Diamond Plastics Corp.

Nevada
No additional listings

New Hampshire
•Coca-Cola Bottling Co.

New Jersey
MCI Optinix Inc.
•U.S. Fuji Electric Inc.
•US JVC Corp.
USR Optinix Inc.
Orient Shimazaki Chemical Corp.

New Mexico
No additional listings

New York
Economic Salon, Ltd.
Optical Information Systems Inc.
Shindo International, Inc.

North Carolina
Alumax Inc., Alumax Extrusions, Inc.
Fuji Cone Inc.
Munsingwear, Inc. (2)

North Dakota
No additional listings

Ohio
•ALCOA-NEC Communications Corp.
Bellemar Parts Industries Inc.
•Fotomat Corp.
Fujitec Industries, Inc.
LeBlond Makino Machine Tool Co.
Stanley Electric U.S. Co., Inc.

Oklahoma
Chickasha Cotton Oil Co.
Munsingwear, Inc.
North American Brine Resources

Oregon
•Enway Inc.

Pennsylvania
•TYK Swank Refractories Co.
•Toyojemco Ltd.

Rhode Island
Machine Specialties Co.

South Carolina
TNS Mills, Inc.

South Dakota
No additional listings

Tennessee
•Bridgestone Tire Manufacturing (U.S.A.), Inc.
Pearl International Corp.

Texas
Alloy Tool Steel of Texas Inc.
Chickasha Cotton Oil Co. (2)
•Diamond Plastics Corp.
First Metals, Inc.

Halco Fence & Wire Co.
Munsingwear, Inc. (2)
Pace Products Inc.
Sony Magnetic Products Inc. of America

Utah
No additional listings

Vermont
No additional listings

Virginia
Amano-International Enzyme Co., Inc.

Washington
Alpha Biochemical Corp.
International Titanium Inc.
Nichimo Northwest, Inc.
Nintendo of America, Inc.
Olympic Wood Products Inc.
*Pacific Propeller, Inc.
Universal Seafoods Ltd.
Whitney-Fidalgo Seafoods, Inc. (2)

West Virginia
No additional listings

Wisconsin
Harnischfeger Corp. (2)
Munsingwear, Inc.

Wyoming
No additional listings

Puerto Rico
Caribe Isoprene Corp.
Caribe Tuna Inc.
Matsushita Electric of Puerto Rico, Inc.
Neptune Packing Corp.

*Previously unlisted plants that went into operation during 1982 or were under construction on December 31, 1982, as well as acquisitions that were finalized in 1982.

Note: A number in parentheses indicates that the relevant company has plants in more than one location in the state.

Appendix 3: U.S. Manufacturing Affiliates of Japanese Companies by Product Line

Food Products

2013	Shumai	Rakuyo Ken U.S.A. Inc.
2034	Instant noodles	Union Inc.
2035	Cooking wines	American Industries Co., Inc. (2)
	Sauces	American Industries Co., Inc.
2037	Frozen potato products	•Enway Inc.
2051	Bakery products	Bunmeido of Hawaii Ltd.
	Bakery products	Daiichiya Love's Bakery Inc.
	Bakery products	Orange Bakery Inc.
2052	Rice crackers	Amenack, Inc.
2074	Cottonseed oil	Chickasha Cotton Oil Co. (4)
2077	Binder for fish feed	Alpha Biochemical Corp.
2086	Soft drinks	•Coca-Cola Bottling Co.
2091	Canned fish	Caribe Tuna Inc.
	Canned fish	Harbor Seafood Co., Inc.
	Canned fish	Kodiak King Crab, Inc.
	Canned fish	Norpac, Inc.
	Canned fish	Neptune Packing Corp.
	Canned fish	North Pacific Processors Inc. (3)
	Canned fish	Peter Pan Seafoods Inc. (2)
	Canned fish	Togiak Fisheries, Inc.
	Canned fish	Wards Cove Packing Co., Inc. (8)
	Canned fish	Western Alaska Fisheries, Inc.
	Canned fish	Whitney-Fidalgo Seafoods, Inc. (7)
2092	Frozen fish	Bering Sea Fisheries, Inc.
	Frozen fish	Dutch Harbor Seafoods Co., Inc.
	Frozen fish	Harbor Seafood Co., Inc.
	Frozen fish	Kodiak King Crab, Inc. (2)
	Frozen fish	North Pacific Processors Inc. (3)
	Frozen fish	Peter Pan Seafoods Inc. (2)
	Frozen fish	Togiak Fisheries, Inc.
	Frozen fish	Universal Seafoods Ltd. (2)
	Frozen fish	Wards Cove Packing Co., Inc (7)
	Frozen fish	Western Alaska Fisheries, Inc.
	Frozen fish	Whitney-Fidalgo Seafoods, Inc. (3)
2099	Seasoning mixes	S & B International Corp.
	Vinegar	American Industries Co., Inc. (3)

Tobacco Manufactures

No additional listings

Textile Mill Products

2211	Cotton fabrics	Munsingwear, Inc.
	Cotton-blend sheeting	TNS Mills, Inc.
2221	Synthetic fabrics	Munsingwear, Inc.

Apparel and Made-up Textile Products

232	Men's/boys' shirts, underwear, nightwear	Munsingwear, Inc. (4)
234	Women's intimate apparel	Munsingwear, Inc. (4)
2399	Gill nets	Nichimo Northwest, Inc.

Lumber and Wood Products

2421	Lumber	Olympic Wood Products Inc.

Furniture and Fixtures

2517	Speaker boxes	Matsushita Electric of Puerto Rico, Inc.
2599	Kiosks	•Fotomat Corp.

Paper and Paper Products

No additional listings

Printing and Publishing

2721	Periodicals publishing	Economic Salon, Ltd.
2752	Color separation, offset printing	Shindo International, Inc.

Chemicals and Related Products

2819	Fluorescent material for cathode ray tube displays	USR Optinix Inc.
	Iodine	North American Brine Resources
2822	Isoprene monomer, dicyclopentadiene, piperylene	Caribe Isoprene Corp.
2834	Ethical pharmaceuticals	Key Pharmaceuticals, Inc.
2865	Nigrosine (black ink)	Orient Shimazaki Chemical Corp.
2869	Enzymes	Amano-International Enzyme Co., Inc.
	Feed additives	Nutrius Inc. (3)
	Lysine (feedstuff amino acid additive)	•Bio Kyowa Inc.

Petroleum Refining

No additional listings

Rubber and Miscellaneous Plastic Products

3011	Radial truck tires	•Bridgestone Tire Manufacturing (U.S.A.), Inc.
3041	Plastic/rubber flexible hose	Totaku America Corp.
3079	Polyvinyl chloride pipes	•Diamond Plastics Corp. (2)

Leather and Leather Products

No additional listings

Stone, Clay, Glass and Concrete Products

3231	Glass transparencies for aircraft	•Sierracin Glass Transparencies Inc.
3297	Steel industry refractory products	•TYK Swank Refractories Co.

Primary Metals

3339	Titanium sponge	International Titanium Inc.
3354	Aluminum extruded shapes	Alumax Inc., Alumax Extrusions, Inc.
3356	Titanium/zirconium tubes/pipe	Nikko Wolverine Inc.
3361	Aluminum castings	Concise Casting Corp.

Fabricated Metal Products

344	Steel processing	Alloy Tool Steel Inc.
	Steel processing	Alloy Tool Steel of Texas Inc.
	Steel processing	First Metals, Inc.
	Steel processing	•Lafayette Metal Service Corp.
	Steel processing	Southern Metal Service, Inc.
3444	Aluminum products for housing aftermarket	Alumax Inc., Alumax Fabricated Products, Inc. (3)
	Sheet-metal ducts	Forman Industries Inc.
3446	Architectural aluminum products	Alumax Inc., Kawneer Co., Inc.
3463	Aluminum wheels/other die-cast aluminum automotive products	•Cast Forge Co.
3494	Expansion valves for automotive air conditioning systems	Pace Products Inc.
3495	Precision springs	•Kato Spring of Georgia Inc.
3496	Chain link	Halco Fence & Wire Co.
	Fittings for metal fencing	Master Fence Fittings Inc.
	Steel cord/bead wire for tires	ATR Wire and Cable Co.

Nonelectric Machinery

3531	Draglines	Harnischfeger Corp.
3532	Mining shovels	Harnischfeger Corp.
3534	Elevators, escalators	Fujitec Industries, Inc.
3536	Hoists	Harnischfeger Corp.
	Hydraulic-truck/rough-terrain cranes, lattice-boom truck/crawler cranes	Harnischfeger Corp.
	Overhead traveling cranes	Harnischfeger Corp. (2)
3537	Material-handling systems	Harnischfeger Corp.
3541	Numerically controlled lathes, machining centers	LeBlond Makino Machine Tool Co.
	Numerical controls	LeBlond Makino Machine Tool Co.
3546	Carbide drills	Megatool Inc.
3559	Components for automatic crimping machinery	•Toyojamco Ltd.
3562	Ball bearings	IKS American Corp.
3568	Pulleys	Machine Specialties Co.
3569	Heat-shrinkable plastic material application machinery	Templock/AFM Inc.
3573	Computers/peripheral equipment	•NEC Information Systems, Inc.

Electric Machinery and Electronics

3613	Circuit breakers for power plants/transmission lines	•High Voltage Breakers, Inc.
3621	Motors for phonographs/audio equipment	Matsushita Electric of Puerto Rico, Inc.
3632	Refrigerator parts	Sanoh Manufacturing Corp.
3641	Automotive/motorcycle lighting equipment	Stanley Electric U.S. Co., Inc.
3651	Color television sets	•US JVC Corp.
	Projection color television sets	Hitachi Consumer Products of America Inc.
	Projection color television sets	•Mitsubishi Consumer Electronics America, Inc.
	Recording studio equipment	•MCI Inc.
	Stereo speakers, record changers	Matsushita Electric of Puerto Rico, Inc.
	Paper cones for stereo speakers	Fuji Cone Inc.
3652	Video discs	•Pioneer Video, Inc.
	Video discs	VHD Disc Manufacturing Co.
3662	Satellite television receiving systems	•ALCOA-NEC Communications Corp.
	Video game machines	Nintendo of America, Inc.
3674	Integrated circuits	•Matsushita Electronic Components Co.
	Integrated circuits	•NEC Electronics U.S.A. Inc.
	Semiconductor laser devices/subsystems	Optical Information Systems Inc.
	Lead frames for integrated circuits	International Leadframe Corp.
	Metal stampings for integrated circuit lead frames	UGM, Inc.
3675	Axial capacitors	CTY Corp.
3676	Thin-film resistive electronic components	Thin Film Technology Corp.
3678	Connectors	Kel-Am, Inc.
	Connectors	SMK Manufacturing Inc.
3679	Audio cassette tapes	Sony Magnetic Products Inc. of America
	Relays, sockets, switches/other electrical industrial components	IDEC Systems & Controls Corp.
3693	X-ray intensifying screens for medical use	MCI Optinix Inc.

Transportation Equipment

3714	Automotive seat assemblies, exhaust silencer systems	Bellemar Parts Industries Inc.
3728	Aircraft propellers	•Pacific Propeller, Inc.

Precision, Medical and Photographic Equipment

3829	Calipers, micrometers	Mitutoyo Corp.
3841	Medical diagnostic equipment	Cathra International Corp.
3861	Photographic chemicals	•Fotomat Corp.
	Photo-sensitive drums for copiers	•U.S. Fuji Electric Inc.
	Toner/developer for copiers, duplicators/printers	Memorex DIC Corp.
	Dry toner for copiers	Ricoh Electronics, Inc.
	Toner/developer/other consummable supplies for photocopying industry	Tomoegawa (U.S.A.) Inc.

Miscellaneous Manufactures

3931	Musical drums	Pearl International Corp.
3949	Golf clubs	Daiwa Golf Co.
	Golf clubs	Homma Golf, Inc.
3999	Disposable cigarette lighters	•Tokai of America Inc.

•Previously unlisted plants that went into operation during 1982 or were under construction on December 31, 1982, as well as acquisitions that were finalized in 1982.

Note: Product lines are grouped in terms of the Standard Industrial Classification. A number in parentheses indicates that the relevant company produces its product line in more than one location.

Appendix 4: Changes in Previously Listed U.S. Manufacturing Affiliates of Japanese Companies

1. Companies Closed or Sold

Company	Plant Location	Parent	Product Line
Feltloc, Inc.	East Greenwich, RI	Dynic Corp.	Nonwoven cotton fabrics
Marcrest Pacific Co., Inc.	Carson, CA	Marubeni Corp. Crest Steel Corp.	Welded steel beams
National Plywood, Inc.	Long Beach, CA	Mitsui & Co., Ltd.	Plywood
Rosewood Knitting Mills, Inc.	Martinez, GA	Toyobo Co., Ltd.	Synthetic-fiber grey goods knitting
SMK Donnette Inc.	Chatsworth, CA	Showa Musen Kogyo Co., Ltd.	Connectors
Sekisui Products, Inc.	Linden, NJ	Sekisui Chemical Co., Ltd.	Polyethylene foam pipe insulation
Topri Inc.	Peachtree City, GA	Tokyo Print Industry Co., Ltd.	Printed circuit boards

2. Merged Companies

Old Company	New Company
Erie Technological Products Inc. JFD Electronic Components Inc. Murata Corp. of America	Murata Erie North America, Inc.

3. Permanently Closed Plants

Company	Plant Location	Parent	Product Line
Alumax Inc., Hillyard Aluminum Recovery Corp.	Fontana, CA	Mitsui & Co., Ltd. Nippon Steel Corp. AMAX Inc.	Dross recovery
Erie Technological Products Inc.	Erie, PA	Murata Mfg. Co., Ltd.	Ceramic capacitors
Harnischfeger Corp.	Escanaba, MI	Kobe Steel, Ltd.	Lattice-boom truck/crawler cranes
Munsingwear, Inc.	Ironwood, MI	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	Men's/boys' shirts, underwear, nightwear
Munsingwear, Inc.	Little Falls, MN	Toyobo Co., Ltd. Descente Ltd. C. Itoh & Co., Ltd.	Men's/boys' shirts, underwear, nightwear
Murata Corp. of America	Douglasville, GA	Murata Mfg. Co., Ltd.	Ceramic capacitors

4. Plant Location Changes

Company	Previous Plant Location	New Plant Location
ARi Industries Inc.	Franklin Park, IL	Addison, IL

5. Ownership Changes

Company	Plant Location	Parent	Previous Share	New Share
Coca-Cola Bottling Co.	Middletown, CT	Kirin Brewery Co., Ltd.	50%	100%
Coca-Cola Bottling Co.	Lowell, MA	Kirin Brewery Co., Ltd.	50	100
Coca-Cola Bottling Co.	Laconia, NH	Kirin Brewery Co., Ltd.	50	100
Numano Sake Co.	Berkeley, CA	Takara Shuzo Co., Ltd.	20	60

6. Company Name Changes

Previous Company Name	New Company Name	Plant Location	Product Line
Electronic Arrays Inc.	NEC Electronics U.S.A., Inc.	Mountain View, CA	Integrated circuits
Yamazaki Machinery Corp.	Mazak Corp.	Florence, KY	Numerically controlled lathes

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JEI

REPORT

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Gibbons Subcommittee Considers Trade Remedy Laws

The Ways and Means Subcommittee on Trade last week began a series of hearings to consider options to improve U.S. trade remedy laws. High-technology and textile industry representatives charged that current statutes are ineffective in dealing with the unfair practices that proliferate in today's trading environment. In particular, they said, the standards for proving injury are too stiff; the executive has too much discretionary authority in deciding how to respond to foreign unfair trading practices; the costs of

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	CY 1981	CY 1982	January-March 1982	April-June 1982	July-September 1982	October-December 1982(p)
Gross National Product	¥197,065.0 (3.8%)	¥202,925.1 (3.0%)	¥198,754.9 (1.5%)	¥202,624.0 (8.0%)	¥204,511.6 (3.8%)	¥205,426.3 (1.8%)
Personal Consumption Spending	102,428.9 (0.5%)	106,772.5 (4.2%)	104,308.4 (5.1%)	106,674.8 (9.4%)	107,118.8 (1.7%)	108,711.2 (6.1%)
Private Residential Construction	10,751.2 (-2.6%)	10,642.2 (-1.0%)	10,362.8 (-6.0%)	10,451.8 (3.5%)	10,515.1 (2.4%)	11,297.3 (33.2%)
Private Fixed Nonresidential Investment	33,920.2 (5.6%)	34,556.1 (1.9%)	34,319.7 (0.3%)	34,504.3 (2.2%)	34,725.1 (2.6%)	34,663.3 (-0.7%)
Change in Business Inventories	1,446.9 (-22.4%)	1,275.3 (-11.9%)	1,567.8 (*)	1,447.6 (*)	1,143.6 (*)	945.6 (*)
Government Current Expenditures	18,726.4 (4.6%)	19,379.8 (3.5%)	19,068.4 (2.4%)	19,362.1 (6.3%)	19,509.1 (3.1%)	19,589.7 (1.7%)
Government Fixed Investment	18,761.8 (5.3%)	18,893.2 (0.7%)	17,911.7 (-16.0%)	18,758.2 (20.2%)	19,793.6 (24.0%)	18,940.3 (-16.2%)
Change in Government Inventories	-270.1 (*)	-308.3 (*)	-114.3 (*)	11.9 (*)	-264.7 (*)	-865.5 (*)
Net External Sector	11,299.5 (52.5%)	11,714.3 (3.7%)	11,330.6 (16.5%)	11,413.3 (2.9%)	11,972.0 (21.1%)	12,141.4 (5.8%)
Exports of Goods and Services and Factor Income Received	39,074.6 (15.9%)	40,347.5 (3.3%)	40,365.4 (6.1%)	40,119.9 (-2.4%)	41,146.2 (10.6%)	39,831.6 (-12.2%)
Imports of Goods and Services and Factor Income Paid	27,775.1 (5.5%)	28,633.2 (3.1%)	29,034.8 (2.3%)	28,706.6 (-4.4%)	29,174.2 (6.7%)	27,690.2 (-18.8%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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REPORT

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CURRENT ANTITRUST POLICY IN JAPAN

Summary

Because Americans are relatively unfamiliar with Japan's antitrust laws, they share a widespread belief that either Japan has no such laws or that enforcement of them is very lax. While antimonopoly policies are somewhat different in Japan than in the United States, this conclusion is exaggerated. An earlier Japan Economic Institute (JEI) study, written in August 1979, provided a basic introduction to the structure of Japanese antitrust law and its history of enforcement. This report extends that analysis and adds some observations on the direction of subsequent activity.

Since Japan is a country with an articulated industrial policy, it is important to look at antitrust developments in the broader context of industrial policy in Japan; to confine the discussion to antitrust case law would be to miss much that is important. For the purposes of this report, antitrust is defined as the suspicion, wariness and prohibition through law or administrative policy of business activities that might have an adverse effect on consumers.

While Japan remains a country where industry is allowed to engage in cooperative activity to a greater degree than is the case in the United States, the concept of antitrust in this broad sense has been strengthening. This report considers developments in four areas: first, the actual statutes on antitrust and their enforcement; second, the willingness of the government to legislate exemptions to the antitrust laws; third, the extent of administrative guidance as a substitute for purely private collusion; and fourth, the role of the enforcement agency in wider industrial policy discussions.

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Background

Since the legal framework was covered in some detail in the earlier JEI Report, only a brief summary is provided here.[1]

Postwar Occupation Origins of Antitrust Statutes — Prior to the Second World War, Japan had no antitrust laws. Monopolies during this period were rare, but zaibatsu — large, family-owned conglomerates tied in a holding-company format — controlled an increasing share of industrial activity during the 1920s and 1930s. These were dissolved during the occupation and antitrust legislation modeled on U.S. statutes was instituted.[2]

The Antimonopoly Act, when first enacted in 1947, prohibited monopolization, unreasonable restraint of trade (through cartels which fix prices, limit quantities or access to technology, facilities, supplies or the output market), and a variety of specific unfair methods of competition. These included refusing to receive or supply goods, charging unduly discriminatory prices, charging unduly low prices, coercing customers to deal exclusively, establishment of sole-agency contracts, and use of resale price maintenance. In addition, a variety of corporate activities that could lead to monopolization were prohibited, and remedies included corporate breakup. To enforce these prohibitions, the act established the Fair Trade Commission (abbreviated as JFTC in order to avoid confusion with the Federal Trade Commission in the United States). The JFTC is an independent commission that combines the functions of the Antitrust Division of the Department of Justice and the Federal Trade Commission.

Shortly thereafter (1949), the former Ministry of Commerce and Industry was renamed the Ministry of International Trade and Industry (MITI) and its functions were greatly strengthened. MITI was given statutory authority (until the 1960s) over allocation of foreign exchange and control over all technology licensing between Japanese and foreign firms. The agency was also the source of much of the legislation relating to various industries, which put it in a strong position to affect the course of antitrust policy.[3]

Post-Occupation Legal Changes — Since its passage, the Antimonopoly Act has undergone several revisions. From 1949 to 1953 a number of amendments weakened the original provisions of the law. In particular, certain types of cartels were made legal, bank limits on stockholding in non-financial companies were eased, and limited resale price maintenance was permitted. After 1953, the main thrust of change was not directed at further alteration of the Antimonopoly Act, but rather at a proliferation of special industry laws that included exemption from Antiminopoly Act prosecution for certain forms of collusive behavior. In 1965, MITI unsuccessfully proposed legislation which would have tremendously increased its power in guiding certain industries, including the administrative authority to grant exceptions to the Antimonopoly Act and to devise consensus decisions on structural changes in industry. This law, which would have considerably weakened free markets and made the JFTC virtually useless, was defeated in the Diet.[4]

The long trend toward weakening the law's original intent was finally reversed in the 1970s, with the enactment of an amendment to strengthen the law in 1977. There were a number of major changes, including a) new rules for corporate breakup, making any attempt to create a monopoly or engage in collusive activity unnecessary in certain cases of highly concentrated industries; b) a reduction in the proportion of a company's stock that could be held by a bank from 10 percent to 5 percent; c) a reporting requirement for firms in an industry where "harmonious" price increases take place within

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three months of one another and d) a ten-fold increase in fines for violations (to approximately $23,000 at current exchange rates). In addition, the JFTC could now levy a surcharge on the income of companies involved in illegal cartels based on estimated excess earnings resulting from the existence of the cartel. This was intended to offset any extra profits that illegal cartel participants earned by their participation.

JFTC Enforcement Activity

While the Antimonopoly Act provides for initation of private suits, in practice, virtually all of the cases have been initiated by the JFTC. One reason for this has been that, unlike the United States, the law does not provide for treble damages, and an individual may not feel the results justify the effort. In any case, a look at the cases initiated by the JFTC offers a picture of the law's enforcement. A number of legal studies have considered the details of these cases and their effect on the definition of illegal activity.[5] The purpose here is to look instead at the broad indicator of activity provided by the number of cases tried.

In analyzing the data on JFTC cases, one should be aware that once an investigation has been initiated by the JFTC and evidence submitted, the case may be formally settled in one of several ways. The JFTC may issue a recommendation finding, with which the firms involved can choose to comply voluntarily. If the recommendation is not accepted, the JFTC institutes formal proceedings, during which it acts as a court and hands down a formal decision after hearing arguments from its investigative staff and from the defendants, although defendants may agree to accept a consent decree prior to a formal decision. Formal decisions may also be appealed to the Tokyo High Court. All of these procedures are quite similar to the operation of the Federal Trade Commission in the United States.

Disposition of JFTC Cases — Table 1 summarizes JFTC enforcement activity over the postwar period. As shown, most JFTC rulings are either recommendations or consent decrees. Of a total of 751 cases, 544 accepted a recommendation finding, and 108 more were resolved with consent decrees. Only 99 went on to a formal decision, and of these 18 were appealed to the Tokyo High Court.

The tendency for cases to end at the recommendation or consent stage is entirely consistent with the general tendency in Japan to avoid confrontation in the courtroom. Most investigations, in fact, do not even proceed as far as a recommendation finding. The Fair Trade Commission was involved in 344 separate investigations in 1981 — of which 127 were ongoing cases from the previous year and 217 were initiated in 1981. Subtracting the 198 cases unresolved by the end of the year, the JFTC concluded 146 cases in 1981, of which only 13 proceeded as far as a recommendation, consent decision, or formal decision. Of the remaining investigations, 91 were stopped short of a formal recommendation through the issuance of informal "warning" notices to the firms involved. This is characteristic of the preference for informal procedures in Japan and the desire of individuals and corporations to avoid litigation. Another 44 cases were dropped because the commission found insufficient proof of wrongdoing to proceed further.

Avoidance of the more formal procedures and decisions does not necessarily mean that enforcement is lax. The compromise between adversarial parties implicit in not pressing as hard for a winner-take-all confrontation may mean that the guilty are not punished as severely or aggrieved parties not compensated as fully as they would be in the United States. On the other hand, the Japanese system brings a degree of quick, efficient action.

A more serious problem in enforcement is the lack of strong powers to obtain documentation for antitrust cases. Some cases dropped for lack of evidence might have been prosecuted if the JFTC had the legal clout that its parallel agency has in the United States. In discussing this problem, Professor John Haley[6] notes that the JFTC's relatively active enforcement role despite this liability is due to the impact on corporations of the adverse publicity associated with being investigated; a quick agreement to cease the alleged illegal activity without admitting guilt is often preferred over what might be a more protracted struggle.

Types of Violations — The preponderance of violations handled by the JFTC have involved one or more unfair practices rather than monopoly. In fact, of the 733 cases (excluding those which went on to a Tokyo High Court decision), only six involved monopoly, and three of these were decided before the American occupation ended. The most frequent violations are restrictive trade activity involving collusive price and quantity agreements and actions against trade associations for collusive activities.

Changes in Enforcement — The number of cases decided each year, as shown in Table 1, provides a convenient look at the changing nature of Japan's antitrust enforcement. With the weakening of the Antimonopoly Act in 1953 and the concomitant proliferation of special industry legislation, the JFTC remained rather inactive. After averaging 16 decisions a year from 1947 to 1953, it dropped to an annual average of only six cases from 1954 to 1962. A major expansion in JFTC activity brought the average number of cases decided in 1963-1977 to 34 a year. The peak of JFTC activity, and probably the peak of public interest in stronger antitrust enforcement, came in 1973 and 1974 with a rash of cases resulting from a period of intense inflation accompanied by shortages of some industrial supplies and consumer necessities.

The burst of enforcement activity in the 1970s led to the modifications adopted in 1977. But oddly enough, enforcement activity since 1977 has declined, with an average of only 14 cases decided annually in the 1978 - 1981 years. It would seem that the JFTC would have become more active rather than less. No convincing explanation is available on this decline in activity, since it is hardly likely that Japanese industry was persuaded by the amendment to avoid violating the law. However, the evidence suggests that the decline in vigorous prosecution has been offset by more effective activity in other areas.

It should also be kept in mind that the 1977 amendment itself was largely unrelated to actual investigations. The new rules governing corporate breakup are irrelevant since they represent a virtually unused weapon that is no more likely to be employed in the future than in the past. The changes in bank ownership of stock do not affect JFTC enforcement until 1987 since the banks have a ten-year grace period in which to reduce their holdings. The reporting requirement on parallel price increases could have led to more cases, but was weak enough that its impact has probably been minimal. Still, the amendment did have a psychological impact in that it strengthened the importance of the JFTC as an organization.

Resale Price Maintenance — The JFTC presides over the exemptions granted for resale price maintenance. Table 2 gives the postwar history of the products and the number of companies in each industry that are involved in resale price maintenance contracts under the exemptions granted by the law. From a peak of 134 companies in 1970, the total is now down to 51; product areas have contracted from ten to two (cosmetics and pharmaceuticals). The major reductions took place between 1972 and 1974, but since 1974 there has been a modest but continuing drop in the number of companies involved under the remaining cosmetic and pharmaceutical categories.

JFTC-Authorized Cartels — A principal change — and one responsible for the argument that antitrust policy was lax in the 1950s and 1960s — was the elimination of the per se illegality of cartels. Under the 1953 revision of the act, recession cartels and rationalization cartels could be authorized by the JFTC. Recession cartels are permitted for limited periods of time (generally six months to one year, with the possibility of extensions) whenever an industry faces a decline in business or a price decline severe enough to threaten the continued operation of a majority of the firms in the industry. Rationalization cartels may also be approved by the JFTC to coordinate and protect firms in an industry that are investing in facilities needed for more efficient production. In both categories, membership in the resulting cartel is voluntary and non-participating firms cannot be legally coerced by the government to join.

Neither of these two categories of legal cartels has been heavily used, as indicated in Table 3. At its peak in 1966, 30 recession and rationalization cartels were in effect. Since then the number has declined dramatically, even though economic conditions in the 1970s placed many more industries into truly recessionary conditions than before. Since 1975, the rationalization cartel format has been largely unused (zero to one cartel a year) and the recession cartel used less frequently (one to six cartels a year).

In evaluating the drop in recession cartels, it is important to remember that some industries that would have formed recession cartels instead turned after 1978 to cartels under the new Structurally Depressed Industries Law (discussed below). The number varied from four to eight in the years from 1979 to 1981. Unlike the other forms of special industry cartels considered below, these must be approved by the JFTC.

The drop in cartels subject to JFTC approval is not necessarily due to the disinclination of the JFTC to approve them, since the initiative for the cartels must come from the industry involved (with the tacit or explicit support of the ministry overseeing the industry). However, it seems at least likely that the JFTC's attitude in reviewing cartel requests has been a factor in the decline.

In the broader context of industrial policy, some comment must be made concerning the government's willingness to legislate exemptions to the Antimonopoly Act and to preside over the collusive activity thus authorized. Two examples of changes in this regard are presented here — the number of cartels authorized under special legislation, and the current struggle over the renewal of the Structurally Depressed Industries Law.

Authorized Cartels — With the spate of special industry laws passed in the 1950s, the number of cartels that were exempt from prosecution grew swiftly, as shown in Table 3. From 53 in 1953, the number of cartels mushroomed to 1,049 in 1966 (excluding those authorized by the JFTC under the recession and rationalization provisions in the Antimonopoly Act). Since that time the number has dropped rather steadily, reaching 502 in 1982.

Since most of the laws allowing the formation of cartels are still in effect, and industries are unlikely to be any less eager to seek a legal way to collude, the decline indicates a different attitude in the ministries under whose jurisdiction the industries fall. This is true especially because industry legislation was generally worded so as to exclude the JFTC from any role in approving the cartels, leaving the decision entirely to the relevant government ministries. The laws also generally gave the ministries the power to coerce non-participants into joining the cartels.

Numbers can be deceiving, however, and the smaller number of cartels that now exist could have more members or cover a greater amount of industrial output. Data on this is sparse, but one leading Japanese antitrust scholar presents data on the "cartelization ratio," the ratio of manufacturing industry shipments covered by legal cartel arrangements to total manufacturing industry shipments.[7] This ratio declined from 28 percent at the end of March 1963 to 17.6 percent at the end of March 1973 — confirmation that the drop in the number of cartels has been accompanied by a decline in the relative role of cartels in the economy. The numbers, though, drop most dramatically from 1966 to 1977. In fact, from 1979 to 1982, the decline has not continued, leaving the number of authorized cartels at about 500. This suggests that recently the steam has gone out of the movement within the relevant ministries (mainly MITI) to reduce these cartels.

The Structurally Depressed Industries Law — In 1978, Japan passed a law to assist what were described as structurally depressed industries. That law provided a variety of measures, including coordinated cutbacks in production capacity, low-cost loans to facilitate the cutbacks, and legal cartels. Eventually 14 industries cut back production capacity under the law, although not all of them used the financial assistance or cartel provisions. The law is due to expire at the end of June and a replacement is now under discussion that would be aimed directly at several industries covered by the first law. MITI has drawn up legislation which would provide assistance to eight industries: aluminum smelting, petrochemicals, fertilizer, polyvinyl chloride, open-hearth and electric furnace steel, synthetic textiles, and paper and pulp. The legislation was approved by the Cabinet in February and has been submitted to the Diet. Like its predecessor, it is to run for five years, beginning July 1, 1983. Cartels formed for the purpose of reducing capacity will still be exempt from prosecution, but it is specifically stated that other joint action (allocating production, fixing prices and merging to eliminate firms, for example) will receive no exemption. On these collusion issues MITI will be allowed to consult directly with JFTC.

This plan has become very controversial. The JFTC has come out against it and called into question the effectiveness of cartels, administrative guidance and other forms of government involvement in helping structurally depressed industries. This has set the stage for a vigorous battle this spring in the Diet, although it is expected that some form of the law will be passed.

Administrative Guidance

This form of industrial policy action, which often takes the form of allowing some type of collusive activity, is a very broad category and one that is beyond the scope of this report. However, where administrative guidance authorizes an activity that violates the Antimonopoly Act, the situation has changed considerably in Japan because of the oil-cartel case brought by the JFTC.

The petroleum refining industry has had a rather close relationship with the government since the passage of the Petroleum Industry Law in 1962. Under it, MITI had a strong influence over many industry decisions, including construction of new facilities, annual production levels and prices, but the industry did not have any specific antitrust exemption. In 1972, MITI agreed to an industry-proposed production cut, subsequently implemented through the trade association. At the same time, twelve of the refiners met to work out an agreement on price increases that was then approved by MITI.

The JFTC attacked both the coordinated production cut and the price agreement, and took the unusual step of filing criminal charges at the Tokyo prosecutor's office rather than using its own administrative procedures. The case was decided by the Tokyo High Court on September 26, 1980. In the decision, the defendants were acquitted of charges stemming from the coordinated production cutback on the grounds that the industry action had been consistent with MITI's directions. The action itself was illegal, the court said, but by carrying out MITI's wishes, the companies showed no criminal intent; that is to say, they could not be held liable by one branch of the government for doing what another branch told them to do. However, the court held that by encouraging and permitting the industry to carry out a coordinated production cut, MITI subverted the intention of the Antimonopoly Act, a statement that constituted a strong chastisement of the ministry.

On the question of price-fixing, the twelve firms involved and their executives were found guilty. In this case, the court found, the defendants received MITI's blessing after the fact, but were not following specific administrative guidance or furthering MITI policies. The argument of innocence by virtue of MITI's approval was not sufficient justification this time.

This decision was a very important one, and it struck a blow at the rather indiscriminate use of administrative guidance. Nothing in the decision struck down the use of administrative guidance to sanction otherwise illegal activity, but it certainly strengthened the JFTC's long-standing position that administrative guidance is not an acceptable excuse for illegal collusion. The decision sent shock waves through MITI, which has begun sparring with the JFTC for a definition of the acceptable limits of administrative guidance.

The JFTC's Role

The JFTC has played a role beyond simply prosecuting antitrust violations. It has moved into the debate opposing a replacement for the 1978 Structurally Depressed Industries Law and has vigorously struck out at the opportunity to draw up guidelines to limit the prerogatives of administrative guidance. Meanwhile, it has pursued an antitrust philosophy designed to encourage competition. In 1982, for example, the commission issued a report arguing that government regulation was obstructing market competition and thereby hurting the economy. The industries in which it felt regulation should be eased included banking, alcoholic beverages, airlines and other forms of transportation, warehousing, electric power and data communications.

Because the JFTC does not have Cabinet rank, it is not as powerful as the ministries responsible for economic regulation and applications of administrative guidance. It is unlikely, for instance, that it will be able to prevent the passage of the new version of the Structurally Depressed Industries Law. However, the JFTC does have some voice in these matters and can force change at the margin.

Conclusion

The concept that certain forms of corporate behavior are detrimental to the economy is well entrenched in Japan, despite its origins as an American occupation-imposed law. Although the JFTC is the sole agency charged with enforcement of the law, consideration of the policies of other ministries, particularly MITI, is essential to evaluate the course of antimonopoly policy in Japan.

While enforcement is by no means as stringent as in the United States, the JFTC has had a role to play in postwar industrial policy, as show by the rising caseload, the 1977 amendment to strengthen the Antimonopoly Act, and its increasingly active presence in broader industrial policy discussions. Not even MITI favored outright monopolization, even during the heyday of its attempts to influence industry structure in the 1950s and 1960s. When economic growth slowed in the 1970s, MITI curbed its support for collusive activity to some extent, as represented by the enormous drop in the number of authorized cartels. MITI has not, however, abandoned its intellectual attachment to the idea of government intervention to moderate "excessive competition".

Cartels and other forms of collusive behavior in Japan are a topic of some interest now in Washington as part of the broad debate on Japanese industrial policy. Any evaluation of such policies should take into account the drop in government-authorized collusion indicated by the above analysis.

Footnotes

[1] "Antitrust Policy in Japan," Council Report No. 24, August 10. 1979, Japan Economic Institute, Washington, D.C.

[2] Occupation reforms are covered in great detail in Eleanor Hadley, Antitrust in Japan (Princeton University Press, 1970).

[3] For an account of MITI's internal history and policy-making processes see Chalmers Johnson, MITI and the Japanese Economic Miracle (Stanford University Press, 1982).

[4] Ibid, pp. 255-260.

[5] Mitsuo Matsushita, "The Antimonopoly Law of Japan" (a paper presented at the U.S.-Japan Trade Law Conference, June 6-7, 1979, sponsored by the Federal Bar Association); "Trustbusting in Japan: Cartels and Government-Business Cooperation", Harvard Law Journal, 1981, pp. 1073-1080.

[6] John Haley, "Antitrust Enforcement in Japan: Sleight-of-Hand or Reality," East Asian Executive Reports, July 15, 1980.

[7] Matsushita, "The Antimonopoly Law of Japan."

For further information, contact Edward Lincoln.

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Table 1: An Overview of Fair Trade Commission Activity, FY 1947-1981

Type of Decision	1947	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964
Recommendation	0	0	2	4	4	3	5	0	5	5	7	2	2	1	3	7	24	30
Consent	5	2	11	45	6	4	5	2	1	0	0	0	0	0	0	5	11	0
Formal Decision	0	0	1	10	8	8	2	3	5	1	0	0	0	0	0	1	1	0
Court Appeal	0	0	0	1	0	1	1	1	1	0	0	1	2	0	0	0	0	0
Total	5	2	14	60	18	16	13	6	12	6	7	3	4	1	3	13	36	30

Type of Decision	1965	1966	1967	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981
Recommendation	26	17	11	28	26	43	37	27	67	47	31	24	13	7	12	12	12
Consent	0	0	0	0	1	1	0	1	1	0	2	1	1	1	1	1	0
Formal Decision	1	0	1	3	5	0	0	6	1	13	1	0	4	0	2	3	1
Court Appeal	0	0	0	0	0	0	2	1	0	1	0	1	3	1	0	0	1
Total	27	17	12	31	32	44	39	35	69	61	34	26	21	9	15	16	14

Source: JFTC, Kosei Torihiki Iinkai Nenji Hokoku (Fair Trade Commission Annual Report), 1982

Table 2: Firms with Authorized Resale Price Maintenance Contracts

Commodity/Year	53	54	55	56	57	58	59	60	61	62	63	64	65	66	67	68	69	70	71	72	73	74	75	76	77	78	79	80	81
Cosmetics	10	24	25	24	25	25	24	25	26	32	32	36	41	44	45	46	45	47	48	51	43	34	30	27	27	27	29	28	27
Hair Dye	0	1	1	1	1	1	2	1	2	3	4	5	5	7	8	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Toothpaste	0	0	0	0	0	0	0	0	2	2	2	2	4	4	6	6	6	6	6	5	3	x	x	x	x	x	x	x	x
Household Soap	3	5	5	5	5	6	8	9	9	15	21	21	24	26	28	28	25	24	23	20	16	x	x	x	x	x	x	x	x
Household Detergent	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	5	2	x	x	x	x	x	x	x	x
Miscellaneous Liquor	0	0	0	0	0	0	0	0	0	0	0	0	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Caramel	0	0	0	0	1	1	1	1	1	1	1	1	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x
Pharmaceuticals	x	1	1	1	1	1	1	1	1	1	5	14	30	37	43	50	50	54	46	44	33	30	29	29	29	27	26	25	24
Cameras	x	0	0	0	0	0	0	0	0	0	0	0	0	2	3	3	3	3	x	x	x	x	x	x	x	x	x	x	x
Shirts	x	x	x	x	x	0	1	1	1	1	1	1	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x	x

Notes: 1. The numbers represent firms, most of which have multiple products covered by resale price maintenance contracts.
2. "x" means industry not authorized to engage in resale price maintenance.

Source: JFTC, Kosei Torihiki Iinkai Nenji Hokoku, 1982

Table 3: Authorized Cartels in Japan, 1953-1982

(number of cartels as of March 31 of each year)

	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967
Antimonopoly Act, Recession Cartels	--	0	0	0	1	1	5	4	3	0	1	2	2	16	1
Antimonopoly Act, Rationalization Cartels	--	0	0	4	6	6	8	9	9	11	11	14	14	14	13
Import-Export Trade Law, 1952-	0	6	14	37	71	93	150	172	193	199	202	202	210	214	210
Designated Electronics and Textiles Industry Rehabilitation Law, 1971-78	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Medium-Small Industries Associations Law, 1953	53	71	143	194	218	280	314	370	467	549	591	588	587	652	634
Liquor Industry Law, 1953-	0	2	4	4	7	8	9	9	9	9	9	9	12	12	12
Sanitation Industry Law, 1957-	--	--	--	--	--	0	0	0	5	63	95	106	122	123	123
Fishery Export Industry Promotion Law, 1954-	--	--	0	8	8	11	10	11	10	11	11	11	12	11	8
Coastal Shipping Association Law, 1957-	--	--	--	--	--	1	9	10	12	13	16	15	14	16	21
Textile Industry Facilities Temporary Law, 1956-70	--	--	--	--	0	0	2	7	4	3	3	3	3	3	3
Depressed Industries Law, 1978-83	--	--	--	--	--	--	--	--	--	--	--	--	--	--	--
Other	0	0	1	1	1	1	2	3	2	10	12	20	23	18	15
Total	53	79	162	248	312	401	509	595	714	868	951	970	999	1,079	1,040

	1968	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982
Antimonopoly Act, Recession Cartels	0	0	0	0	9	2	0	2	1	1	6	4	1	1	3
Antimonopoly Act, Rationalization Cartels	13	12	10	13	10	10	9	0	0	0	1	0	1	1	0
Import-Export Trade Law, 1952-	216	221	218	195	177	181	138	109	98	86	75	74	70	66	62
Designated Electronics and Textiles Industry Rehabilitation Law, 1971-78	--	--	--	--	0	13	15	17	16	15	9	--	--	--	--
Medium-Small Industries Associations Law, 1953	582	522	469	439	606	607	591	511	395	279	290	274	267	268	290
Liquor Industry Law, 1953-	12	10	7	7	7	4	4	0	0	0	0	0	0	0	0
Sanitation Industry Law, 1957-	123	123	123	123	123	123	122	122	122	122	122	122	122	122	122
Fishery Export Industry Promotion Law, 1954-	8	8	8	8	8	7	7	8	8	8	8	8	7	7	7
Coastal Shipping Association Law, 1957	22	22	22	21	19	14	7	4	4	5	5	5	5	5	6
Textile Industry Facilities Temporary Law, 1956-70	3	3	3	--	--	--	--	--	--	--	--	--	--	--	--
Depressed Industries Law, 1978-83	--	--	--	--	--	--	--	--	--	--	--	5	8	8	4
Other	26	33	26	39	19	18	15	15	10	12	18	14	10	11	15
Total	1,003	954	886	863	976	979	908	788	654	528	534	506	491	489	505

Source: JFTC, Kosei Torihiki Iinkai Nenji Hokoku, 1982

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JEI

REPORT

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THE OFFICE OF TRADE OMBUDSMAN

Summary

Since the government of Japan established the Office of Trade Ombudsman (OTO) in January 1982, the office's importance has been gradually strengthened, first in May 1982 and again in January 1983. Progress reports by the government show a rise in the number of cases submitted to the ombudsman's office and give some indication of its effectiveness in resolving problems related to import standards and certification procedures. Because of persistent complaints that market access is still a problem, however, the government has decided to strengthen the system by establishing an OTO Advisory Council, and is pressing for further liberalization of import-distorting procedures. This report will discuss the role, organization and controversy surrounding the OTO.

Background

In January 1982, the government of Japan, pressed by its trading partners to come up with a proposal to address the complaints of overseas exporters, set up the Office of Trade Ombudsman (OTO). The trade-related ministries and agencies were directed to identify internal channels for processing grievances and to take the necessary institutional steps to ensure that the procedure was effective. Communication and coordination were the responsibility of a deputy chief Cabinet secretary and a staff of vice ministers from appropriate agencies. A bureau of the Economic Planning Agency (EPA) was designated to serve as OTO's secretariat, and OTO reception offices were opened in the major government ministries.

Former Prime Minister Zenko Suzuki, a strong supporter of the move, made his position clear in a statement stressing the importance of the OTO in the market-access package announcement of January 1982. He noted that as an international contribution

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to the maintenance of the free trading system, Japan was willing to uniliterally reduce tariffs and establish an ombudsman's office to deal with international trade disputes. Again in the second market-access package of May 1982, the importance of the office was emphasized. Government officials said the OTO had been working to advance access and had already been instrumental in a total of 86 cases. The office would, they said, continue to explore ways to make more comprehensive use of the procedure in cooperation with various private foreign organizations in Japan. In addition, in January 1983, the government took the unusual action of strengthening the functions of the OTO, including establishing an advisory board and permitting a system under which complaints could be filed by proxy. Such signs of a more aggressive stance have been welcomed by all the parties in the trade arena.

Grievance Procedures

The headquarters office of the agency functions as a clearinghouse for incoming inquiries and complaints of all sorts. While these are simultaneously filed with the relevant department, OTO maintains contact with the foreign companies regarding the status of their problem. Procedures require prompt discussion of changes to correct working-level grievances.

Each of the 11 trade-related ministries and agencies accepts and processes incoming complaints. As noted above, a recent innovation permits a grievance to be filed by proxy so that a company need not be physically in Japan to take advantage of the service. The offices of OTO inform the complainant of the status of his case within ten days and monthly thereafter until a final determination is made. And when a finding is conveyed to the complainant, the reasons for the determination are clearly stated.

In processing grievances, the following guidelines are followed:

1. Conformity with International Standards — In setting and revising standards based on various domestic laws and regulations, an effort is made to see that they conform to international standards as much as possible.

2. Acceptance of Foreign Test Results — Where there is sufficient reason to believe that the results of tests in foreign countries fulfill Japanese standards, foreign test data will be accepted.

3. Clarification and Quantification of Standards — Where foreign firms feel Japanese standards are unclear or confusing, efforts will be made to clarify them.

4. Simplification of Testing Procedures — The amount of documentation required will be reduced to shorten the time required for import inspection and eliminate delays caused by minor points.

5. "Transparency" — Prior notification of regulations will be made to afford broader opportunities for exporters to submit comments about amending the standards. Information on laws and regulations will be available in English-language translations, as will procedural manuals.

To insure fast settlements, ministry officials must report to the OTO weekly on the disposition of incoming grievances. If the complaint is not received by the agency which has jurisdiction over the problem, OTO will decide what agency is responsible on the day

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the complaint is made. Complaints may also be filed with the Japanese embassy in the United States and the offices of the consulates-general, as well as the Japan Trade Centers.

Complaints Received: Ninety-nine complaints were filed from January 1982 to February 1983 (see Table 1). Of these, 33 were from Japanese businesses and 66 from non-Japanese, half of them from the United States (see Table 2). As shown in Table 3, complaints from overseas exporters have been increasing, particularly from the United States (46) and the European Community (29). The most numerous complaints have been directed to the Ministry of Health and Welfare, which examines pharmaceuticals and food sanitation, the Ministry of Finance (tariff classifications), the Ministry of International Trade and Industry (regulations on high-pressure gases) and the Ministry of Agriculture, Forestry and Fisheries (animal quarantine and plant quarantine) (see Table 5).

Complaints Processed: Eighty-seven complaints have been processed since the establishment of the OTO. Of those received by February 1983, six had not been completely resolved by that time, five were under study and one was being classified (Table 6). Of those completed, 21 were resolved through institutional improvements, 46 were dismissed as misunderstandings, and were accepted without further protest (Table 7).

Examples of Complaints

- A complaint was received from a U.S. firm that carpet stain removers were prohibited in Japan because the container's strength was less than the regulated limit under the High Pressure Gas Control Law. The ministry reviewed the standards for the aerosol containers and agreed to an alteration.

- A Japanese honey importer asked for a ruling on the product, which was approved by certificates issued by the government of the exporting country. The firm objected to the examination for residual antibiotics under the Food Sanitation Law. The Ministry of Health instructed every Food Sanitation Inspectors' Office that no examination was necessary if the item was accompanied by government documentation.

- An exception to the regulations concerning imported bees was filed by a Japanese firm, which proposed that local quarantine certificates should be allowed to substitute for the federal ones. The Ministry of Agriculture agreed that where no federal facilities for quarantine exist, the state is permitted to certify the bees as disease-free.

- In another case, a Japanese firm argued that duties for merchandise returned after the six-month import permit date should be refunded. The Finance Ministry ordered an extension.

Still other cases involved a misunderstanding of laws and regulations.

- In a decision involving MITI's chemical substance law, a U.S. firm felt that if it revealed the composition of a chemical reagent to Japanese customs agents, it would expose the firm's products to competing manufacturers. Two specific methods of maintaining confidentiality apply to this procedure, it was explained, and in any case, information concerning composition is not required for customs clearance.

- A U.S. firm said that it had trouble obtaining import certificates for medical equipment under the Pharmaceutical Affairs Law. The Health Ministry explained that no import license was necessary for importing equipment for testing and research purposes.

- Relief from regulations controlling new stores affiliated with foreign firms was a problem for another company. MITI, which handles retail business operations, explained that the law limits new stores above a minimum floor space that might compete against those already in business, but this regulation applies equally to Japanese and foreign concerns.

There is little doubt that this approach represents something of an improvement on the trade scene, but Commerce official Clyde V. Prestowitz, commenting in the Japan Economic Survey of December 14, 1982, was critical. He said that the OTO has been largely ineffective, and complained that it functions more or less as a mailbox. The OTO merely passes complaints on to the ministry, he said, which in all likelihood will send back a negative response. And Clyde McAvoy, the director of Continental/Air Micronesia Airlines in Japan quotes a government official as saying: "I have been asked by the ombudsman to explain to you why your request has been refused."

Mr. Prestowitz argues that in another instance, the Health Ministry (MHW) had changed the health standards for soft-drink dispensers after a particular company had been selling its dispensers in Japan for ten years. The OTO directed the inquiry to officials of the MHW. Two versions of the result are current. In one the agency reportedly said it would not change the standards. In the other, the OTO report on the grievance is said to have concluded that there was "no proof that the regulation discriminated against the imported product. Moreover, the product was determined to be exempt from the standards after investigation. The complainant was satisfied with the explanation."

While there is no way of knowing which story is true, there are some who are dissatisfied with the OTO in the United States. American government and business officials have made the central issue the organization's ability to solve problems, while in Japan the ombudsman is seen as an avenue for investigating complaints, reporting findings and serving as a clearinghouse for inquiries or complaints. This confusion over assumptions has contributed to the growing frustration.

Even Japanese businesses complain about trade-related regulations and Keidanren has been investigating areas where the reform of import procedures is essential from the standpoint of private-sector business activity. It has been pushing the government to adopt additional measures to simplify and streamline its trade-related regulatory functions. Keidanren has suggested eight areas for improvement, including stronger authority to settle complaints. In particular, it feels that foreign and Japanese firms fear retaliation by related ministries or agencies if the company complains to the OTO. Keidanren officials recommend that a procedure that insures confidentiality be tried.

Japanese Government Response

At the beginning of the year, the Nakasone government concluded that it would strengthen the review procedure by setting up an OTO Advisory Council chaired by former State Minister for External Economic Affairs Nobuhiko Ushiba. Tokyo has said that this will strengthen the office's functions by linking the operational level with senior government personnel. In commenting on the policy, the president of the American Chamber of Commerce in Japan, Lawrence F. Snowdon, said that the advisory council was evidence of the government's commitment to directly affect the elimination of trade barriers.

At the same time, OTO's liaison and coordinating functions were reinforced by appointing to the secretariat personnel whose sole responsibility was the OTO. Similarly, each ministry or agency was asked to designate personnel to handle only ombudsman business, in order to speed the processing of complaints and assure full implementation of the recommended improvements. Other changes were made to improve standards and certification procedures and revise and amend the various laws that operate as barriers to trade.

The government-approved package, drawn up after two months of study and lengthy inter-ministerial negotiations, covers laws on pharmaceutical products, agricultural chemicals, forestry products, consumer product safety, consumer appliances and automobiles. The package ensures non-discrimination between nationals and non-nationals, provides transparency — as noted above — and allows parties concerned, including foreign nationals, to testify during the standards-drafting process. It commits Japan to (a) international standards where they already exist, or to the establishment of new standards, (b) the acceptance of foreign test data except where compelling reasons exist not to do so, (c) the simplification of procedures with respect to motor vehicles, pharmaceuticals, medical devices, electric appliances and animal and plant quarantine, and (d) the improvement of pre-import procedures. The government plans to submit these revisions to the current Diet session for approval and is ready to implement administratively those market-opening measures which require no legal revisions.

United States Trade Representative (USTR) William Brock has expressed confidence that the Diet will respond quickly. If these adjustments are effective and access is indeed eased, the role of the OTO will be reduced. But the combination of foreign expectations and domestic bureaucratic inertia might complicate matters. For example, USTR officials suggested in the meeting on import standards and certification procedures recently that changes should include self-certification by foreign manufacturers on compliance with automobile safety requirements. The government agreed to allow foreign automakers to obtain the necessary type designation by shipping one sample vehicle with related documents. As a result, the time required for clearance will be reduced from about seven months to about 2.5 months. Nonetheless, although the Japanese government can legitimately point to its willingness to eliminate nontariff barriers as evidenced by its response to this request, there is still the question of whether these moves will satisfy U.S. government officials and exporters, who contend that there is still an array of trade-restrictive practices available if the Japanese want to use them.

For further information, contact Yoshio Nakamura.

* * * * * *

Table 1: Complaints Received

	Number of Cases
February-October 1982	75
November 1982	9
December 1982	4
January 1983	6
February 1983	5
Total	99

Table 2: Origin of Complaints (February 1983)

Japan	33
Overseas	66
U.S.A.	33
EC	20
Total	99

Table 3: Country of Origin of Product Involved (February 1983)

U.S.A.	46
EC	29
Others	16
Unspecified	8
Total	99

Table 4: Ministry or Agency Accepting Complaints

Economic Planning Agency	40
Ministry of International Trade and Industry	34
JETRO	19
Ministry of Foreign Affairs	19
Ministry of Finance	3
Ministry of Posts and Telecommunications	2
Ministry of Health and Welfare	1
Total	99

Table 5: Jurisdiction Over Items Involved

Ministry of Health and Welfare	34
Ministry of Finance	27
Ministry of International Trade and Industry	23
Ministry of Agriculture, Forestry and Fisheries	8
Ministry of Posts and Telecommunications	4
Ministry of Transport	3
Ministry of Education	2

Table 6: Disposition of Complaints

Completed	87
Under Process*	6
No Decision	5
Being Clarified**	1
Total	99

Notes:

* The ministry or agency has completed its study and is in the process of conveying these results to the complainant.

** The facts of the matter are being confirmed with the complainant and/or the ministry or agency involved and/or are in the testing process.

Table 7: Detail on Cases Completed

Improvements in Regulations	21
Misunderstandings	46
Further Study	0
Situation Unchanged	20
Total	87

* * *

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JEI

REPORT

No. 14A

April 15, 1983

THE ENERGY SITUATION IN JAPAN

Summary

The major trends in Japan's energy situation have remained the same since JEI's previous energy report (JEI Report No. 18A, May 7, 1982). Crude oil imports continued to decline. Alternative energy supplies, particularly nuclear energy, showed steady increases. Industry's energy conservation efforts have also been kept up. While the generally sluggish economy helped contain consumption, the declining level of imports has also started to create problems by resulting in a tax revenue drop that might have a substantial impact on the funding of alternative energy projects.

This paper will examine last year's trends, the impact of the latest decision by OPEC on price and production, the Japanese government's energy policy for FY 1983 (April 1, 1983 - March 31, 1984) and the major areas of U.S.-Japan interaction on energy issues.

Overview

1982 Consumption — Last year, Japan imported 215 million kiloliters of crude oil, a 7-percent decline from 1981, making it the third consecutive year that oil imports declined. After the second oil crisis in 1979, the benchmark price of $12.70 per barrel doubled in one year and then kept rising until it reached $34 per barrel last year. Japan and other industrially advanced nations responded by attempting to import less oil, and have been able to lower oil consumption, thanks to conservation, stockpiling and generally depressed economic conditions. In case of Japan, the steel, cement and ceramic industries' switch from oil to coal played a major role in conservation. In addition, the government launched a public relations campaign to heighten the nation's awareness of energy conservation. Government and industry also cooperated in designing energy saving products, an effort that was particularly successful with electric appliances and automobiles.

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While the use of heavy oil by industry declined, consumption of various light fuels either increased or stabilized. A drastic decline was seen in naphtha, a material used in most petrochemical products. The decline in naphtha consumption resulted in profit losses for refineries already plagued by excessive inventory, competition from abroad and what the government calls "weak business structure."

In the case of other energy sources, coal imports in 1982 were 77.8 million tons, slightly down from the previous year. Domestic production was expected to stay at the same level as in 1981, at slightly more than 17 million tons. Imports of liquefied natural gas (LNG) since 1980 have steadily and slowly increased to reach a present level of 16 million tons (see Tables 1, 2 and 3).

Changing Structure — The structure of Japan's energy supply was the subject of a 1980 OECD study. The basic structure remained the same in 1982. According to the study, Japan's primary energy sources consisted of crude oil, LNG and petrochemical products (64 percent), coal (17.8 percent), natural gas (5.8 percent), nuclear energy (5.4 percent) and hydro and geothermal energies (6.2 percent). In comparison, the United States' primary energy sources came from oil, LNG and petrochemical products (43.4 percent), coal (22.4 percent), natural gas (26.6 percent), nuclear energy (3.6 percent) and hydro and geothermal energies (4 percent). Thus, relative to the United States, Japan was more dependent on petroleum and less dependent on coal. Japan's consumption of energy in terms of oil equivalent in that year was 372 million tons, while the United States used 1,809 million tons.

One of the major changes since 1980 in structure of Japan's energy use has come in the generation of electricity. While oil is still the most important source of electricity, the use of nuclear energy is steadily increasing. In 1980 about 70 percent of electricity was generated by thermo power, mostly oil derived, while 14 percent came from nuclear energy and 16 percent from hydro power. In the first six months of 1982, according to the Japan Atomic Power Industry News, nuclear energy generated 23 percent of the total electric supply, surpassing hydro power. Last year, 25 nuclear plants together generated more than 100 billion kilowatt-hours for the first time. The capacity utilization rate reached 70 percent, the highest ever achieved in Japanese nuclear plant operation.

OPEC London Meeting

In spite of efforts to lower oil consumption and develop alternative energy resources, Japan will be dependent on imported oil in the foreseeable future. Therefore, the Japanese closely followed the outcome of the OPEC meeting in London last month. The resulting announcement that the official Saudi Arabian light oil price will be lowered from $34 to $29 per barrel and that the maximum production ceiling will be set at 17.5 million barrels per day sparked conflicting projections about the future.

There are several schools of thought on what the impact of this momentous change in OPEC pricing will be for Japan. None of the Japanese forecasters and analysts believe that the $29 per barrel price can be maintained, considering OPEC's declining control of the market and the increased number of spot market deals. One view holds that the price will soon go down to about $25 per barrel and then stabilize.[1] Eventual stabilization is supported by factors ranging from the political nature of oil and the expected rise in consumption due to economic recovery to a continued subordinate role for alternative energy resources in this century. On the other hand, holders of a second view point out

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it is quite possible that the prices will fall below $25. They feel, however, that the further the price declines, the steeper the next price hike will be — predicting instability and sudden disruption in the market rather than stabilization.[2] They feel that the volatility will stem from OPEC's declining control over production and prices. Oil industry representatives have put forth another possibility, believing that the present oil glut will continue for at least the next five to seven years. They feel that even if the nominal oil price turns up again, the increases will be gradual which will keep the supply and demand relationship stabilized.[3] Some leading energy research centers in Tokyo in yet another view caution that if the lower price holds, demand will pick up in the mid-1980s. It is then possible that a third oil crisis will occur sometime in the late 1980s or early 1990s.

The Japanese believe that OPEC's leading member, Saudi Arabia, has one goal — to raise the oil price only through gradual increases. The Japanese also are confident that as long as the price changes occur gradually, they can manage their economy. They hope a sudden disruption resulting either from conflict within OPEC or a shift in supply and demand can be avoided, but as shown above by the diversity of views, there is no concensus on whether disruption and price volatility can be avoided.

The Reverse Shock — Prior to the London meeting, there was lively debate in Japan on the "reverse oil shock" — the negative impact of the oil price cut. Some economists argued that if the price was cut it would mean declines in revenue for the oil producing countries. This in turn would shrink their imports and hurt Japanese trade. They were also concerned that a cut in revenue might lead to sudden changes in the oil producing countries' foreign investment policies, changes which might disrupt international financial markets and threaten Japanese large-scale plant exports to the Middle East.

Those who welcomed the price cut argued that since Japan pays about $45 billion a year for imported oil, the price cut will have an immediate favorable impact on the balance of payments. Domestically, the cut would have a favorable impact on inflation. If prices remain stable at a lower level, and exports expand, it would also have a favorable impact on the appreciation of the yen. It is not yet clear which group of economists will be correct.

After OPEC announced its price cut, the Japanese government immediately released its own projection of the impact on the Japanese economy. The Economic Planning Agency believes that, given a $5 per barrel cut, real (inflation-adjusted) economic growth will increase by 0.3 percentage points in the first year and 0.8 percentage points in the second year while consumer prices will be down by 1 percentage point. Nihon Keizai Shimbun has a slightly different projection, with a 0.4 percentage point increase in real growth, a 0.4 percentage point decline in consumer prices and a more than 10 percent price cut for petrochemical products.

The short-run impact on specific sectors will not be dramatic since it takes months for some industries to feel the impact. The immediate beneficiaries will be the oil refineries, which according to one estimate might be able to cut costs by ¥1.5 billion ($6.3 billion at current exchange rates) per year.[4] Several industries, including shipping, might benefit, but exporting industries such as automobiles and electronics would experience a small decline in sales to the oil producing countries. The steel industry has already invested in energy saving technologies, so that the impact of lower oil prices will be minimal. All projections, however, assume that oil prices will be stable or only gradually shift downward, an uncertain assumption at best.

OPEC's Future — Analyses of OPEC's declining power are already abundant. This trend became apparent over the last two years, as the share of spot market oil increased from the customary 5 percent to 30 or 40 percent of total transactions. Specialists point to the historically volatile nature of the oil market; it is a market that has traditionally been stabilized by cartels or monopolies, first by Standard Oil, then by a coalition of major European and American oil firms, and finally by OPEC. The majors' control was clearly diminished with the rise of OPEC's power, but they are now likely to regain their foothold to some extent. One report suggested that when refinery facilities are completed in the Caribbean and Singapore that can handle crude oil with a higher wax content, the four American majors, Exxon, Mobil, Texaco and Standard Oil of California might force down the price of high quality oils from the North Sea, Northern Africa and Nigeria.[5]

In conclusion, Japan will have to cope with two outcomes of the recent developments in the oil market. As the second largest oil importer (only the United States imports more), Japan's continued trade deficit with the Middle East will improve substantially. In 1981, the United States imported 4.4 million barrels per day, while Japan imported 3.9 million barrels, with Japan's resulting trade deficit with the Middle East reaching $25 billion.[6] In this regard, Japan will clearly benefit from the price cut. On the other hand, as a major exporter of goods and technology to OPEC, the loss of foreign exchange earnings resulting from the price and production cut will have significant repercussions on long-term industrial plans in the OPEC countries. Saudi Arabia's sudden cancellation without explanation of a ¥200 billion ($840 million) water purifying project immediately after the London meeting was perceived in Japan to be a direct result of the price cut.

Government Policy

The Japanese government has built its energy policy around the assumptions first contained in its 1979 long-term energy supply and demand projections. Policymakers and energy specialists in Japan have been cautious in their expectations, generally holding a view that Japan should continue to push for conservation, diversify its oil supply sources, develop alternative sources of energy and increase its oil stockpiles. While this view still prevails, the government has had to revise its predictions about the future and reconsider its policy options in light of OPEC's actions.

With the new situation arising from OPEC's decision, the Ministry of International Trade and Industry (MITI) recently decided to revise its long-term energy supply and demand projections announced last April (see Table 4). The assumption at that time was that Japan would continue to achieve a 5-percent real GNP growth throughout the 1990s. This has since proved to be unrealistically high, and the new round of revisions will mark the third time since 1979 that the government has revised energy projections downward. Last year's revisions estimated that between 1980 and 1990, dependence on oil in total energy demand would go down from 66.4 percent to 49.1 percent, while coal would rise from 16.7 percent to 19.5 percent, natural gas from 6 percent to 11.5 percent and nuclear energy from 5 percent to 11.3 percent. Total energy supply was estimated in oil equivalent at 590 million kiloliters per year in 1990.

The 1983 revision will focus on how much further oil dependence can be cut, the speed with which the cut will take place and how to proceed with alternative energy resource development. Declining oil prices act as a disincentive to oil conservation and alternative energy projects. Nevertheless, MITI's preliminary estimate of total energy supply in 1990 is 520 million kiloliters of oil equivalent, down from 590 million kiloliters in the previous forecast because of a reduction of the GNP growth forecast from 5 percent to 4 percent. Final revised estimates will be hammered out by the ministry's advisory group, the Comprehensive Energy Research Council, by August.

In addition to revising its projections, MITI reportedly is looking into a new energy policy which might include a cut in utility rates, new methods to deal with the oil tax revenue shortage and help for the troubled petrochemical and utility industries. MITI will also have to find new ways to finance alternative energy projects as part of any new energy policy. Nihon Keizai Shimbun estimated that the $5 per barrel cut might lead to a tax revenue reduction of ¥40 to ¥50 billion. This would directly affect alternative energy projects, since most of the oil tax revenue is used to finance government assistance to these projects.

The FY 1983 budget for energy clearly reflects the priority the Japanese government places on energy issues. While expenditures for most budget entries were either frozen or cut from last year, MITI's energy budget received a substantial increase.[7] MITI and its branch agency, the Agency for Natural Resources and Energy, play a central role in energy policy. About half of MITI's general account expenditures is taken up by the Special Account for Coal, Oil and Alternative Energy Development.

The first account is funded by revenue from various oil taxes. In FY 1983, 99 percent of oil tax revenue will go into this account. In FY 1983, this account is expected to have ¥581.4 billion ($2.4 billion), a 7-percent increase from the previous fiscal year. The money will go toward independent oil exploration abroad by the Japan National Oil Corporation, financial assistance to the private sector's oil stockpile programs, construction of facilities to hold government stockpiles and various types of assistance to develop technology for alternative energy resources such as coal liquefaction, alcohol fuels, solar energy and coal mining.

Another special account, the Special Account for Promotion of Electric Power Generation, is funded by utility taxes and is used to develop energy sources for generating electric power, particulary nuclear energy, and for the changeover from oil to coal. More specifically, various types of government assistance for developing nuclear fuel recycling, reprocessing and uranium enrichment technologies will be provided.

MITI is not the only agency that finances nuclear energy research. While MITI is in charge of commercial nuclear energy policy, the Science and Technology Agency uses part of its budget for such research as the development of fast breeder reactors and safety measures. To a smaller degree, the Ministry of Education and the Foreign Ministry are also involved in nuclear energy issues.

U.S.-Japan Energy Relations

U.S.-Japan energy relations centered around two issues in the past year: nuclear fuel reprocessing and Alaskan oil. Nuclear fuel reprocessing was the more volatile of the two issues.

Japanese and American officials have been meeting frequently since last fall to reach an agreement on Japan's reprocessing of spent nuclear fuel. The Carter administration's strict policy on nuclear non-proliferation undermined Japanese attempts to proceed with domestic recycling, and the Tokaimura reprocessing plant was allowed to operate only after prolonged and heated negotiations and strict conditions on the amount of spent fuel to be reprocessed and the period of operation. The Reagan administration extended the Tokaimura operation period until 1984. Japan has been sending spent nuclear fuel to Western Europe for reprocessing, but hopes to reduce its dependence on foreign reprocessor operations. The Tokaimura plant is Japan's first experimental reprocessing facility to help achieve this goal.

In the present bilateral agreement, the United States provides enriched uranium to Japan and imposes various approval requirements on the use of the material. If reprocessing is done in Japan, both sides must agree. U.S. approval is also required when shipping the spent fuel abroad for reprocessing. Without amending the existing agreement, Japan is pushing for a blanket approval system for reprocessing, similar to the agreements Japan has already concluded with Australia and Canada. The U.S. side reportedly is searching for ways to harmonize the existing nuclear non-proliferation law passed during the Carter administration and the present administration's favorable attitude toward reprocessing and fast breeder reactor development by countries which are not perceived as likely to violate non-proliferation principles.

In another nuclear energy issue, both governments signed an agreement in January at a summit meeting to conduct joint nuclear fusion research as a part of the 1979 agreement on energy research cooperation. The program will cover a wide range of projects and involve academic institutions in both countries along with the support of MITI, the Science and Technology Agency, the Education Ministry and the U.S. Department of Energy.

Other exchanges of views between the United States and Japan have taken place this year. Another January meeting between American and Japanese legislators in Tokyo focused on nuclear waste and alternative energy development. At the private sector level, a meeting between American and Japanese utility company executives was held in Tokyo for the first time at the end of February to discuss problems and prospects for their industry. According to Gaishi Hiraiwa, chairman of the Utility Industry Association, both sides recognized the existence of common problems ranging from stagnant demand, profit losses and the high cost of nuclear energy development.

The issue of exporting Alaskan oil to Japan was also brought up during the summit meeting in January. Since then, both proponents and opponents of the issue in the Congress have been debating the merit of amending the Export Administration Act to lift ban on exporting Alaskan oil.[8] Because the ban applies only to oil, though, Alaska has been exporting LNG to Japan at the level of 960,000 metric tons a year since 1969. Japanese interest in the Alaskan oil mainly arises from its desire to diversify oil supplies. Interior Secretary James Watt has also raised the possibility of large-scale Japanese investment in Alaskan coal mining, but so far the Japanese government has reacted cautiously.

Footnotes

[1] Kaoru Hiroe and Teruhiko Mano, "Reverse Oil Shock is Good for Japan," Mainichi Economist, March 1, 1983, pp. 10-18.

[2] Kotaro Seki, "Future of Crude Oil Price," Mainichi Economist, April 5, 1983, pp. 39-45.

[3] "OPEC's Next Defense Line," Toyo Keizai, March 26, 1983, pp. 22-27.

[4] Shuji Yamamoto, "The Impact of Crude Price Cut on Industry," Mainichi Economist, April 5, 1983, pp. 46-50.

[5] "OPEC's Next Defense Line."

[6] Japan 1982: An International Comparison.

[7] Shinichiro Ota, Kozo Oikawa, Toshiaki Kitamura and Kaoru Nakamura, "Highlights of MITI Policy in FY 1983," MITI Journal, March 1983, pp. 82-95.

[8] See JEI Report No. 7B, February 25, 1983, "Debate on Lifting Ban on Domestic Oil Exports Revised" and JEI Report No. 10A, March 18, 1983, "Roundtable Discussion on Reagan Administration Policy toward Japan."

For further information, contact Fumiko Mori.

* * * * * *

Table 1: Japan's Crude Oil Supply

(in thousands of kiloliters)

	1980	1981	1982
Domestic Production	503	456	422*
Imports	256,833	230,239	214,643
Import Percentage Change from Previous Year	91.6%	89.6%	93.2%

*January-November only.

Table 2: Japan's Coal Supply

(in thousands of metric tons)

	1980	1981	1982
Domestic Production	18,027	17,687	16,129*
Imports	68,570	77,959	77,813

*January-November only.

Table 3: Japan's Liquefied Natural Gas Imports

(in thousands of metric tons)

	1980	1981	1982*
Imports	16,324	16,833	16,043
Sales by Sector			
Industrial Use	591	565	512
Urban Household Use	3,180	3,411	3,208
Electric Power Generation	12,554	12,857	12,323

*January-November only.

Source for Tables 1, 2 and 3: Ministry of International Trade and Industry (MITI), Energy Production Supply and Demand Statistical Monthly, November 1982; and MITI Gazette, January 28 and February 12, 1983.

Table 4: Ministry of International Trade and Industry's Revised Estimates of Japan's Long-Term Energy Supply and Demand

	FY 1980 (actual)	FY 1990 (projected)	FY 2000 (projected)
Total Supply	430 m.kl.	590 m.kl.	770 m.kl.
Coal	16.7%	19.5%	190.0%
Nuclear Power	5.0	11.3	18.0
Natural Gas	6.0	11.5	9.0
Hydroelectric Power	5.6	5.0	5.0
Geothermal	0.1	1.0	11.0
New Energy Sources	0.2	2.5	
Oil	66.4	49.1	38.0

m.kl. = million kiloliters oil equivalent

Note: These estimates reflect revisions in MITI's initial April 1979 forecast of Japan's long-term energy supply and demand.

Source: Ministry of International Trade and Industry, Comprehensive Energy Research Council

Table 5: Japan's Leading Oil Suppliers

	FY 1979	FY 1980	FY 1981
Oil Majors	51.9%	44.5%	44.8%
Caltex Petroleum Corp. (USA)*	15.3	16.1	16.8
Exxon Corp. (USA)	11.1	9.8	9.3
Mobil Corp. (USA)	8.3	9.0	10.3
Royal Dutch/Shell Group (Netherlands, UK)	9.6	8.3	5.6
Compagnie Francaise des Petroles (CFP) (France)	1.3	0.9	1.0
Gulf Oil Co. (USA)	4.2	0.3	1.2
British Petroleum Group (UK)	2.1	0.1	0.5
Independents	2.4	3.3	3.4
Direct Government Sales	37.2	44.4	45.0
Japanese Development Companies	8.5	7.8	6.8
Total	100.0	100.0	100.0

*Caltex Petroleum Corp. is a 50-50 joint venture between Standard Oil Co. of California and Texaco, Inc.

Source: Keizai Koho Center, Japan 1982: An International Comparison

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JEI

REPORT

No. 14B
April 15, 1983

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U.S. Labor-Industry Coalition Releases Report on Industrial Policy

The Labor-Industry Coalition for International Trade (LICIT) recently released a report entitled "International Trade, Industrial Policies, and the Future of American Industry." This report is the latest entry in the rapidly growing number of policy statements and studies on the topic of industrial targeting. While couched in careful, even language, it's basic theme revolves around the concept that industrial policy (targeting) in foreign countries (particularly Japan) has put American industry at a disadvantage and that therefore the raising of protectionist barriers in the United States is justified.

LICIT was formed in 1980 and is a coalition of 19 industrial unions and corporations. The organization states that it supports government policies and industry actions encouraging "open, fair competition in the United States market as well as for American-made products in foreign markets" without relying on "outmoded" words such as protectionism. However, the corporate and union membership includes some who have been heavily involved in protectionist campaigns for many years, such as Corning Glass Works, Bethlehem Steel, the International Ladies Garment Workers Union and the Amalgamated Clothing and Textile Workers Union.

The purpose of the report is succinctly summarized by its opening statement: "This study addresses a new and growing source of government-created competitive disadvantage for U.S. industries and workers — the widening gap between specific industry support efforts in other countries and programs in the United States." They propose a two-pronged response: barriers to imports to offset the perceived disadvantages to U.S. producers and domestic industrial policies to strengthen U.S. industries.

As the first part of the two-pronged remedy proposed by LICIT are a series of suggestions for the more effective use of U.S. trade law to impede imports. The suggestions include a call for more timely prosecution of trade cases and an implicit appeal for harsher penalties (through a critique of the historical use of presidential discretion to reduce recommended remedies) within the existing trade law framework. It also asks for changes in the trade laws, including more timely relief, a less burdensome causation test, less discretion for the Executive once an affirmative determination is made, a wider choice of remedies, and some concept of reciprocity to attack injury to U.S. producers in foreign producer's markets or in third markets. All of these proposals would make protection less costly for companies to pursue and make the eventual obtainment of relief much less uncertain.

The second part of the remedy is a set of proposals for an industrial policy in the United States, including more government support for research and development, relaxed antitrust policy, tax concessions (or possibly other financial assistance such as subsidized loans), assistance for restructuring declining industry, and more general infrastructure support (education, training, and physical infrastructure). Since the Reagan administration up to this point has clearly decided to avoid implementing industrial targeting in the U.S., it seems unlikely that most of these suggestions will receive a sympathetic hearing. Thus, the main push will come on the protectionist side of the package. It is also noteworthy that the report does not list as a major alternative the Reagan administration's emphasis on reducing specific trade barriers abroad that, as part of foreign industrial policies, have impeded U.S. access to foreign markets.

Japan is not the sole focus of the study, which includes statements on the industrial policies of a number of other countries, including France, West Germany, Brazil and the Republic of Korea. Nevertheless, Japan is very prominent in examples of what LICIT believes to be successful, unfair foreign targeting efforts. The industries where Japanese government policies are listed as providing important — potentially unfair — benefits in international competition include machine tools, robotics, large electrical generating and transmission equipment, fiber optics, computers, semiconductors, telecommunications equipment, automobiles and apparel. Many of the general accusations made in reports like LICIT's, though, do not hold up to careful scrutiny, as evidenced by the inability of Houdaille Industries to convince many in the government on the merits of its charges on Japanese-made machine tools.

With LICIT joining the plethora of other reports and proposals floating around Washington, the concept of industrial targeting will generate discussion and debate for a considerable time in the future; "targeting" has become the newest buzzword in Washington conversations. Japan, raised as a prime example of industrial targeting abroad, will continue to be a major focus of the discussions, although the effectiveness or importance of industrial policy to Japan's international competitive success is still the subject of great debate and disagreement. With attention on Japan, the Japanese government is now considering what its own position should be in the debate (see following article).

Edward Lincoln

MITI Preparing Statement on Japan's Industrial Policy

Recently Lionel Olmer, U.S. Undersecretary of Commerce for International Trade Affairs, suggested that industrial targeting constitutes a growing trade problem and encouraged Congress and the private sector at congressional hearings in March to work closely with his department on this problem. Sam Gibbons, chairman of the House Ways and Means Subcommittee on Trade, at a meeting with Minister of International Trade and Industry Sadanori Yamanaka in Tokyo, urged Japan to review its policy of protecting and subsidizing certain industries. In response, the Japanese government has started to prepare its rebuttal of American criticism of Japan's industrial policy.

The Ministry of Foreign Affairs, in cooperation with the Ministry of International Trade and Industry (MITI), is seeking (1) to find out what kinds of measures the U.S. is critical of; (2) to analyze the American criticism, including that in the Congress; and (3) to formulate Japan's response, given an anticipated increase in criticism before and after the Williamsburg summit scheduled for late May. As part of the effort to answer these questions and defuse mounting criticism, MITI reportedly is preparing a comprehensive report on industrial policy. It is anticipated that the report will warn that unilateral criticism of Japan's industrial policy, which it stresses is more flexible than that of the U.S. and European countries, will serve to justify protectionist measures and will be a threat to the very foundations of the free market system. It will also stress that the development of Japanese industries has been achieved through private sector vitality growing out of the market mechanism while industrial policy has played the role of a catalyst. The report will also note that every country has had industrial policies, whatever name or form is given to them, that have been used to facilitate development of their national economies and enhance the standard of living. For example, it will point out that while Japan, in order to help foreign industries in trouble, has imposed export restraints when so requested, those foreign nations in which the troubled industries are located pursue industrial policies, such as the nationalization of basic industries, for their own self-interest.

Specifically, the report is said to use the following examples to support its claims. First, in the U.S., more that 50 percent of high technology industry sales are to government agencies as opposed to less than 10 percent in Japan. Second, U.S. government subsidies make up 32 percent of the total expenditures for industrial research and development while Japan provides only 1.9 percent. Third, the U.S. government's research and development outlays (excluding those for defense) are four times larger than those of the Japanese government. Finally, the report will say that Japan's industrial policy has operated under accepted international rules and so should not be blamed simply because it is different from the policies of the U.S. and European countries.

The Director of MITI's Industrial Policy Bureau made statements in a recent Toyo Keizai interview along the same lines. He said that Japan's industrial policy should not be criticized because it has been formulated under rules of General Agreement on Tariff and Trade (GATT), and the positive adjustment policy of the Organization for Economic Cooperation and Development (OECD). He also argued that the government's involvement in research and development lessens the risks only partially of high-cost research and development with lengthy or uncertain commercialization prospects. Research and development support in these cases responds to social needs and fits Japan's industrial policy aim of providing only indirect assistance to business.

The Japanese government's forthcoming statement explaining Japan's industrial policy will undoubtedly incorporate the points outlined above in an attempt to respond to U.S. criticism.

Yoshio Nakamura

Administration Announces Proposed Revision to Export Administration Act

President Reagan last week asked Congress to review the Export Administration Act, due to expire in September, and proposed changes that would give the White House greater authority to restrict exports of strategically sensitive goods and technology. "Whereas the present act appears to place greater emphasis on exports, the Administration bill highlights the consequences of failing to prevent or delay the transfer of militarily sensitive technology," Undersecretary of Commerce Lionel Olmer told the House Foreign Affairs Subcommittee on International Economic Policy and Trade. He added, however, that the White House aims to liberalize strategic controls on less critical exports — in particular, types of equipment incorporating microprocessors — while tightening its clamp on the "top of the technology spectrum." There are some 100,000 less critical products for which export licenses may be denied, he pointed out, and felt that this is where liberalization efforts should focus.

Despite the congressional brouhaha concerning the alleged ineffectiveness of trade restrictions imposed after the Soviet invasion of Afghanistan and the declaration of marshal law in Poland, Mr. Olmer underscored the President's resolve that foreign policy controls remain an important instrument that can be used to exercise U.S. influence "by a means short of military action." "The success of sanctions should not be measured simply in terms of immediate modification of the undesirable behavior by the targeted country," he maintained. "Rather, foreign policy controls are also directed toward other significant objectives [such as] deterring future actions by the target country and deterring other countries from acting in a manner similar to the target country, [and] allowing the President to mobilize international support against the behavior of the target country." As a concession to the business community, which has been quite vocal on Capitol Hill in opposing such controls, the White House agreed to protect existing sales contracts, the terms of which require delivery within 270 days from the imposition of the controls, unless it is determined that the "overriding national interest" requires that such exports be prohibited.

The other key revisions include:

- Elimination of controls imposed on the export of certain specific commodities while maintaining the authority to reimpose short supply controls. This easing would remove the current ban on exports of Alaskan crude oil, which the White House contends remains restricted by other statutes.

- A mandate to undertake bilateral and multilateral negotiations to eliminate the foreign availability of comparable goods and technology. (Business has repeatedly complained that their interests are being unduly compromised by the fact that target countries may often obtain comparable products elsewhere.) In the same vein, the proposal underscores the importance of negotiations with other COCOM nations to improve the control list and strengthen enforcement and cooperation with regard to restrictions on certain technologies and commodities.

- Prohibition of sales of sensitive technology or commodities to personnel stationed in foreign embassies in the United States who, at present, can skirt export restrictions by buying the goods here and sending them to their home countries through diplomatic channels.

- Authorization to ban U.S. imports from foreign corporations that violated COCOM restrictions.

- Strengthening enforcement of the Act by making it a crime to conspire to sell restricted goods and technology abroad. The Treasury would also be allowed to impound the proceeds of any illegal transactions.

Subcommittee chairman Don Bonker (D, Wash.) categorically denounced the administration's proposal, contending it appeared "based upon warfare against friend and foe alike." He charged that the continuing Presidential discretion to limit exports for foreign policy reasons is merely a "loophole" that contributes to the image of U.S. exporters as unreliable suppliers in foreign market. Moreover, by proposing to negotiate an end to the foreign availability of goods which the United States wants to control, the White House is "ignoring the realities of global technological interdependence and competition." Rep. Howard Wolpe (D, Mich.), chief sponsor of legislation that would uphold the ban on exports of Alaskan oil, objected strongly to the administration's removal of it from the short supply control section of the Act, warning Undersecretary Olmer that his bill had 163 cosponsors on it already, which is a fair indication of congressional sentiment on controlling exports of this particular resource. Mr. Bonker stated his intent to seek the support of the Foreign Affairs Committee and full House for a bill based upon a "more reasonable balance between economic and national security imperatives."

In view of the Bonker panel's tentative plan to mark up the measure by mid-May for consideration on the floor by late May, administration policymakers will no doubt be scrambling to affect a compromise acceptable to both defense hardliners in the Pentagon and legislators sympathetic to business concerns. Mr. Olmer must also present this bill before the Senate Banking Subcommittee on International Finance, the members of which appear to share similar concerns about how current law may be undermining U.S. business competitiveness in the dynamic high technology sector.

Barbara Wanner

Japan and the U.S.S.R. Exchange Words Over Defense

Soviet Foreign Minister Andre Gromyko's statement that Okinawa is a nuclear base aimed at the Soviet Union sparked sharp reaction in Japan. The statement was made at an April 2 press conference which was televised worldwide and was intended to justify the Soviet Union's rejection of President Reagan's nuclear arms reduction proposal. Mr. Gromyko specifically criticized the U.S. proposal to include reviews of Soviet intermediate-range nuclear missiles positioned in Asia. The foreign minister also made it clear that if an agreement is reached in negotiations on intermediate-range missiles, the Soviet Union will be ready to move part of its intermediate-range nuclear missiles presently located in Europe to Asia. Japan has been pressing the United States to obtain guarantees from the Soviet Union that it will not take this action.

Prime Minister Nakasone responded strongly to Mr. Gromyko's remarks about Okinawa. He sharply criticized the Soviet foreign minister, accusing him of gross distortions and saying the statement was "groundless with no factual backing." He reminded the public that since late Prime Minister Eisaku Sato negotiated the return of Okinawa to Japan from the United States in 1969 the Japanese government has adhered to its policy of banning nuclear arms from Japanese territory. The Prime Minister in addition expressed his displeasure that while talking about nuclear danger in Asia, the Soviet official omitted to mention China's nuclear arms. He also demanded that the Soviet Union acquire a better understanding of Japan's position on defense. Finally, he maintained that the government's policy is to strengthen the U.S.-Japan Security Treaty since Japan's security cannot be protected by an indecisive attitude.

In response to opposition parties' questions during a Diet hearing, the prime minister asserted that present world peace is preserved because of the nuclear deterrent. The opposition parties and other critics of the prime minister argue that a policy of arming against the Soviet Union will not guarantee peace.

In Moscow, Ambassador Takashima met with Prime Minister Nikolai Tikhonov to convey the Japanese government's criticism of the Gromyko statement on Okinawa. The Soviet prime minister reportedly avoided directly addressing the issue. In addition, the ambassador reiterated Japan's position on the northern territories question to which Mr. Tikhonov responded by repeating the official Soviet stand that no such issue exists between the two nations. The Soviet leader also strongly criticized Prime Minister Nakasone's tough defense posture and willingness to block straits of the Sea of Japan if a hostile force attempts to sail through them.

Nihon Keizai Shimbun likewise strongly criticized Foreign Minister Gromyko's statement. "During past several years, the Soviet Union has been taking every possible tactic to divide and shake the western alliance. The statement made by Mr. Gromyko this time is a part of this policy to manipulate the on-going nuclear arms reduction negotiations to the Soviet advantage. . . . The Soviets, on one hand, threatened Japan by implying nuclear attacks but, on the other hand, appealed to the Japan Socialist Party and the Democratic Socialist Party by hinting of a possible Soviet initiative in the security area. Using nuclear arms to threaten a neighboring country is itself unjustified and rude. In addition, Foreign Minister Gromyko totally ignored Japan's nuclear arms ban policy. Japan should be united without being intimidated by such tactics by Moscow and continue to appeal for the global reduction of SS-20 missiles."

The recent developments between Japan and the Soviet Union indicate not only an increase in bilateral tension but also raises questions within Japan about whether or to what degree Japan's defense build-up should be continued. It remains to be seen whether Prime Minister Nakasone's movement toward improving Japan's defensive capacity will win support from a majority of the public. In a recent newspaper poll, it was clear that opinion is still divided on Mr. Nakasone's defense policy. While the Liberal Democratic Party's supporters favor the general thrust of most of the prime minister's foreign policy, the general public has been increasingly critical of his stand on defense since he took office last fall.

Fumiko Mori

Japan's Fish Quota Cut

Tokyo's continued objection to the International Whaling Commission's (IWC) recent decision to ban all commercial whaling by 1985 has prompted Washington to withhold more than 100,000 tons of fish from the amount the Japanese may harvest from U.S. waters. James Shorer, director of the fisheries affairs office in the State Department's

Bureau of Oceans, Environment, and Science, announced that Japan's latest fishing allocation was cut from 286,000 tons to 183,000 tons effective April 1. "We are withholding [part of the allocation] pending a resolution of some problems with Japan and the whaling issue is an element of that," he stated. However, if there is progress on the whaling controversy, the State Department official added, Washington may well restore this allocation to its full level when it makes its final allocations for foreign fishing on July 1.

According to the U.S. Fisheries Conservation and Management Act, after U.S. authorities determine how much domestic fishermen can harvest during a given year, the excess resources are allocated among foreign fishing nations. The recently concluded U.S.-Japan Governing International Fisheries Agreement (GIFA) stipulates that Tokyo's future allocations are contingent on its compliance with the so-called "fish and chips" criteria, rooted in the concept of reciprocity (see JEI Report No. 2B, January 14, 1983 for background). Increased fishing privileges are thus linked with the fulfillment of the five "fish and chips" criteria: improved access of U.S. fish and fish products to foreign markets; greater efforts to aid American industry through harvesting/processing joint ventures; improved cooperation in enforcing U.S. fishing regulations; joint development of standard gear and harvesting and processing techniques; and improved research on fish resources.

The new GIFA also stipulates when the State Department is to release the surplus. Half of each year's allocation is to be made in January, with 25 percent more on April 1 and the remainder on July 1. In this way, the United States has two additional chances after the first installment to reduce a country's allotment for political purposes (as in the case of the whaling issue), or if a country fails to fully comply with the reciprocity criteria.

This latest reduction should come as no surprise. Earlier this year, State Department correspondence with Senator Bob Packwood (R, Ore.) indicated that the administration intended to use the GIFA allocations procedure in an attempt to bring Japan into compliance with the IWC's proclamation.

Barbara Wanner

Diet Passes National Budget

The House of Councillors (Upper House) approved an unamended budget for FY 1983 on April 4 by a vote of 124 to 98. The House of Representatives (Lower House) already voted 274 to 191 to pass the budget on March 8. The ¥50,379 billion ($212 billion at current exchange rates) budget enacted by the Diet represents an overall increase of only 1.4 percent over the FY 1982 budget. Actually, overall expenditures in FY 1983 will fall 3.1 percent, with the increase resulting from payments to cover FY 1982 budget items carried over because of the revenue shortfall. This austere budget, however, does include a 6.5-percent increase in defense spending that is balanced by a meager 0.6-percent increase in social welfare spending and a 0.9-percent decrease in education and science. Because of an anticipated decline in tax revenues, the government expects to issue public bonds of ¥13,345 billion ($56 million) — upping the ratio of debt financing to 26.5 percent — in order to finance the budget.

An income tax cut was the major issue raised during the budget deliberation in the Diet that remains unresolved. The Minister of Finance, Noboru Takashita, responded to requests for income tax cuts by the Chairman of the Budget Committee in the Upper House by promising that he will ask the Tax Advisory Council to study the scale and timing of an income tax cut as soon as possible.

Opposition parties expressed dissatisfaction with the FY 1983 budget which they were unable to modify. They particularly criticized the government for increasing defense spending at the sacrifice of social welfare and education. They were also concerned that the government had not included any strong measures to help economic recovery and had not taken decisive action on fiscal and administrative reforms. However, they believed that their strong pressure for an income tax cut had at least forced a government promise, and the opposition now intends to press for delivery of that promise.

After passage of the budget, the Ministry of Finance (MOF) announced its fiscal policies for 1983. The policies will stress economic stimulation in the first half of FY 1983, which will be achieved by accelerating expenditures for public works projects and, in the second half, will emphasize autonomous economic recovery. However, these policies might have to be amended since additional expenditures for government salary increases and for natural disaster relief are anticipated as well as a loss of revenue from income tax cuts. Therefore, it is inevitable that the government will submit a supplementary budget this fall. MOF has to decide whether to finance the supplemental budget by further cutting other expenditures, by issuing more public bonds or by increasing taxes.

Before the current session of the Diet ends May 26, debate will resume on various pending issues: an opposition demand for the resignation of former Prime Minister Kakuei Tanaka from the Diet; the question of transfer of military technology to the United States; and administrative reform. Prime Minister Yasuhiro Nakasone is expected to prioritize administrative reform, including a bill to restructure the debt-ridden Japanese National Railways. It is also possible that the prime minister will dissolve the Lower House if opposition parties oppose administrative reform strongly and then call a general election to by held simultaneously with the already pending Upper House election.

Yoshio Nakamura

Labor Conditions in Japan on the Eve of the Spring Wage Offensive

The Japanese Ministry of Labor recently released February's labor market statistics. Japanese unemployment stood at 2.7 percent for the second consecutive month — the highest level since 1953. In February, there were 55 million people employed in the workforce, nearly a 2-percent increase over the same month last year and 1.65 million people were listed as "totally unemployed", a 300,000 increase. The number of male workers increased by 1.2 percent while female workers increased 3.2 percent. The increase in female workers reflects a trend toward greater participation by women in the workforce, although most hold only part-time jobs. For the first time in eight months, job openings in the services industry declined by more than 4 percent. Declines in job openings were also seen in the construction, manufacturing, transportation and communications industries. Only the finance, insurance and real estate fields recorded substantial increases in job openings.

When the government increased its sample size from 30,000 to 40,000 workers in January, the unemployment figure jumped to 2.7 percent. Some Cabinet ministers wondered whether the new method was as valid, but the Economic Planning Agency (EPA), the Labor Ministry and the Office of the Prime Minister decided to retain it in future statistical surveys, concluding that it was a more accurate reflection of labor conditions.

The government also surveys the ratio of job openings to applicants who are registered at government employment agencies. In February, there were only 6 job openings for every 10 applicants. This represented a decline from January, the first in seven months. The survey is considered to be a key indicator of labor market conditions, even though there are many privately-run agencies which specialize in the placement of professional and white collar workers.

These figures are important because they will be used during the spring labor-management wage negotiations which will begin shortly. Four major labor unions had announced earlier that they would demand a 7-percent wage increase this spring, but since then they have changed their tactics and are now demanding only a 6-percent increase. The change was attributed to a tough stand by mangement, and some unions were reluctant to fight for an "unrealistic" figure, given the sluggish economy. The 6-percent increase applies only to routine annual wage increases and excludes merit raises and bonuses. The spring wage offensive will also include negotiations on working conditions and fringe benefits.

The figures are also important because if unemployment continues to be high, the Nakasone government and the Liberal Democratic Party might encounter serious political problems since polls suggest that the public is not satisfied with the prime minister's handling of economic issues. With the impending election, the Cabinet is seeking ways to defuse any such political problems. Therefore, in response to pressure to stimulate the domestic economy, the Cabinet has come up recently with a new set of economic measures (see JEI Report No. 13B, April 8, 1983).

Fumiko Mori

Notes

- U.S. cigarette exporters won a small victory last December when the Japanese government agreed to lower the tariff on cigarettes from 35 percent to 20 percent effective April 1, 1983 (see JEI Report No. 1B, January 7, 1983). This cut, subsequently approved by the Diet, should have reduced the ¥290 retail price of major American brands by ¥30 a pack and, at the same time, narrowed the price differential between imported and domestic cigarettes from ¥110 to ¥80. Now American cigarette companies are crying foul. On March 31 the Diet raised retail prices of leading Japanese brands by ¥20 a pack to ¥200, the first hike in domestic cigarettes in three years. It also tacked a ¥20-per-pack "surcharge" on imported cigarettes, with both increases going into effect May 1. U.S. manufacturers charge that this action, which limits the net price cut for foreign brands to ¥10 a pack, repudiates Prime Minister Nakasone's January promise that retail prices of American cigarettes would drop by the full amount of the tariff reduction.

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Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-February 1982	January-February 1983	December 1982	January 1983	February 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,191*	$ 417	$ 1,528*	$ 2,397*	$ -618*	$ 2,146*
Exports (f.o.b.)	149,522	137,651*	21,789	20,352*	12,429*	9,324*	11,028*
Imports (f.o.b.)	129,555	119,460*	21,372	18,824*	10,032*	9,942*	8,882*
Current Account Balance	4,770	6,896*	-1,899	-497*	1,706*	-1,444*	947*
Long-Term Capital (net)	-6,449	-15,007*	-3,098	-886*	-327*	-621*	-265*
Overall Balance	-2,144	-4,971	-3,870	-905	236	-2,218	1,313
International Reserves (end of period)	28,403	23,262	28,122	23,754	23,262	23,593	23,754
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	-1,533	-273*	1,603	-1,698	1,425*
Exports (f.o.b.)	152,030	138,831	21,973	20,257*	12,583	9,227	11,030*
Cars	18,445	18,015	2,918	3,243*	1,549	1,623*	1,620*
Steel	16,669	15,645	2,430	1,821*	1,245	853*	968*
Imports (c.i.f.)	143,290	131,931	23,506	20,529*	10,980	10,925	9,604*
Crude Oil	53,343	46,274	9,086	7,698*	4,048	4,181*	3,517*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	1,762	1,705*	958	604	1,101*
Exports (f.o.b.)	38,609	36,330	5,812	5,349*	3,009	2,525	2,824*
Imports (c.i.f.)	25,297	24,179	4,050	3,644*	2,051	1,921	1,723*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥235.00	¥237.90	¥235.40
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-2,937	-2,823	-683	-1,352	-1,471
Exports (f.a.s.)	21,823	20,966	3,492	3,025	1,803	1,601	1,424
Industrial Supplies	8,983	9,173	1,655	1,296	745	714	582
Food and Feed	5,896	4,971	700	753	389	373	380
Capital Goods	4,767	4,434	746	608	392	321	287
Consumer Goods	1,318	1,356	209	213	107	106	107
Imports (f.a.s.)	37,612	37,744	6,428	5,848	2,486	2,953	2,895
Automotive Products	12,950	12,890	2,130	2,187	910	1,101	1,086
Industrial Supplies	7,179	6,795	1,369	805	344	407	398
Consumer Goods	8,340	7,842	1,301	1,158	521	607	551
Capital Goods	8,589	9,530	1,514	1,600	669	790	810

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January 1982	January 1983	November 1982	December 1982	January 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	10.7%	7.7%	8.0%	7.9%	7.7%
Industrial Production	2.0%	-0.4%	2.7%	-1.7%	-1.4%	-2.0%	-1.7%
Manufacturing Operating Rate	-4.6%	-2.9%	0.4%	n.a.	-4.0%	-4.9%	n.a.
Number of Bankruptcies	-1.5%	-2.8%	-5.7%	1.1%	-2.5%	-2.2%	1.1%
Residential Construction Starts	-9.2%	-0.5%	-2.2%	20.7%	13.6%	2.1%	20.7%
Job Openings to Applications (ratio)	0.68	0.61	0.66	0.60	0.60	0.60	0.60
Nominal Wages	5.3%	4.8%	4.8%	5.9%	5.4%	2.3%	5.9%
Labor Productivity	3.5%	n.a.	3.0%	n.a.	-0.4%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	1.9%	-0.1%	2.0%	0.9%	-0.1%
Consumer Prices	4.9%	2.7%	3.3%	2.0%	2.3%	1.8%	2.0%
Yen-Based Export Prices	1.2%	3.9%	6.7%	-3.5%	2.8%	-0.1%	-3.5%
Yen-Based Import Prices	1.6%	7.9%	7.8%	2.6%	11.4%	7.6%	2.6%

*Preliminary

For Japan's most recent GNP data, see JEI Report No. 11B, March 25, 1983.

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U.S. AGRICULTURAL EXPORTS TO JAPAN: A REVIEW OF 1982 SALES

Summary

The worldwide recession and price-depressing surpluses of grains and other commodities in the United States took a heavy toll on American agricultural exports in 1982, pushing them down 15.5 percent to $36.6 million. Sales to Japan, the largest single buyer, did not buck the first downturn in U.S. farm exports since 1975, as they dropped by exactly the same margin as aggregate shipments to $5.5 billion. The volume of sales, however, held up surprisingly well considering the state of the Japanese economy and the steep fall in the value of the yen. As a result, Japan solidified its position as the number-one buyer of U.S. corn, sorghum, cotton, and beef and other meat and as the second-largest market for soybeans and fruits and vegetables.

Feed Grains

Market analysts who had projected that Japanese livestock and poultry formula feed production would mark time in 1982 for the third straight year were in for a surprise since output rebounded 2.4 percent to 22.7 million metric tons, a new record. What threw forecasters off was the unexpectedly strong impact a January 1982 cut in mixed feed prices had on demand. Feed mills had lowered their prices twice in 1981 but with little effect because livestock and poultry producers' profit margins continued to be tightly squeezed by feed prices that were above year-earlier levels and generally low product prices. Coming on top of the two earlier rounds of price cutting, however, last January's reduction eased one source of the profit squeeze by lowering the component that represents up to two-thirds of total costs for most livestock and poultry raisers. The steps hog and dairy cattle farmers took in 1981 to limit the growth in animal numbers also paid off last year in higher product prices.

Although egg prices fell rather significantly in 1982 as production continued to outstrip consumption, demand for layer feed, which accounts for 30 percent of Japan's formula feed output, rose strongly, thanks to lower feed costs. Similarly, weak broiler meat prices did not prevent a large gain in purchases of broiler feed since declining feed prices allowed most producers to maintain their profitability. Beef feed demand was up, too, as the gains generated by a steady buildup in the Wagyu herd more than canceled out declines in the number of dairy steers placed on feed. Purchases of dairy feed also reversed course after two years of decline, leaving swine feed as the only exception to the trend of rising formula feed production. Hog producers, who buy just under 30 percent of the feed industry's output, have been very cautious the past three years about expanding their herds, opting instead to maximize unit profits.

Unfortunately for international coarse grain traders, the 1982 rebound in Japan's formula feed production did not translate into higher feed grain import demand since feed compounders expanded output by stepping up the use of non-grain ingredients. In a double blow to exporters, usage of surplus rice in feed picked up speed during the year, pushed along by increasingly attractive pricing and persistent government jawboning. By year-end feed mills had used slightly more than 0.5 million metric tons of rice, compared with well under 0.1 million metric tons in 1981. With this additional rice displacing corn and sorghum on exactly a one-to-one basis, both the corn content and the sorghum content of Japanese mixed feed declined in 1982. Most of the adjustment fell on corn, as a 3.7-percent drop in usage to 10.3 million metric tons lowered the average mixing ratio for corn to 45.3 percent from a record 48.2 percent in 1981. Sorghum consumption was pared back, too, but by a smaller 1.3 percent to 3.4 million metric tons since sorghum import prices were below corn prices for much of the year.

With a stock buildup offsetting some of the drop in the formula feed industry's demand for corn, Japanese feed corn imports slipped only 0.6 percent in 1982 to 10.3 million metric tons. Deliveries from the United States, however, fell 3.1 percent to 9.9 million metric tons, as feed millers tried to take advantage of declining U.S. corn prices and equalize exchange rate fluctuations by delaying purchases as long as possible and then buying only enough to satisfy immediate requirements. Sorghum imports from this country were even harder hit, tumbling 23.6 percent to under 2.2 million metric tons, even though Japan's formula feed industry upped its total sorghum purchases 3.8 percent to 3.4 million metric tons in a stock-replenishing move. What hurt American exporters here was the return of Argentina as a volume supplier to the Japanese market after a two-year absence.

U.S. sorghum sales to Japan, which contracted in 1982 to 1.9 million metric tons worth $206 million, are unlikely to recover this year, in part because the formula feed industry's projected use of 0.6 million metric tons of surplus corn is expected to cut into sorghum usage more than last year. It is assumed, in addition, that Argentina will supply the bulk of Japan's reduced sorghum requirements since its prices are reportedly becoming increasingly more favorable.

In contrast, Japan's purchases of feed corn from the United States could turn around in 1983 if, as currently forecasted, formula feed production goes up modestly. Demand for swine feed is finally expected to rally somewhat this year since hog producers have started a cautious expansion of their herds. Rising beef cow numbers point to another gain in purchases of beef feed, while output of broiler feed is projected to benefit from increasing chicken production. Moreover, with the discontinuation in late 1982 of the dairy industry's three-year program to cut milk production by culling less productive cows from the herd, demand for dairy feed should go up. In fact, only purchases of layer feed are expected to slip, the result of a voluntary producer program to shore up sagging egg prices by reducing flock sizes.

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The major question mark about this forecast concerns feed prices. When Zennoh, a national federation of cooperatives that controls about two-fifths of Japan's formula feed market and is the industry's price leader, announced last fall that feed prices would be maintained through June 1983 at fourth-quarter 1982's reduced level, U.S. corn prices were much lower than they are now with the U.S. Department of Agriculture payment-in-kind program. Zennoh officials are already talking about a stiff increase in third-quarter 1983 feed prices to offset higher U.S. corn prices, while other feed mills are lobbying for a hike this quarter. The industry recognizes that a major price increase could choke off the continued recovery of formula feed demand, but maintains it has no choice.

Equally uncertain is the outlook for U.S. exports of corn for manufacturing corn sweeteners, corn starch and other processed products, which represented about one-tenth of 1982's total shipments of 11,435,090 metric tons valued at $1.3 billion. Japan's purchases of corn for industrial use have expanded steadily in recent years, hitting just under 3.3 million metric tons last year, but low sugar prices and a surcharge on corn sweeteners that went into effect last October could slow or reverse this growth. If they do not, U.S. corn exporters might recapture some of the business they have lost in the past two years to South African producers, who are currently handicapped by tight supplies of high starch-yielding maize.

Soybeans

As recently as 1980, the Japanese oilseed crushing industry's requirements for imported soybeans were framed primarily by domestic demand for soybean oil. Feed mills' soybean meal demand was a secondary consideration, reflecting the industry's practice of producing oil to the extent that stocks did not become price depressive and relying on imported meal to fill protein meal requirements not satisfied by the domestic crush. In 1981, however, feed millers, in a cost-cutting move, reduced the protein meal content of feed, especially soybean meal usage. Even though vegetable oil demand was extremely buoyant, this step forced crushers to rejuggle their priorities and limit the soybean crush. Soybean meal demand, while stronger than in 1981, continued to place a cap on the size of the crush last year, again despite the fact that oil consumption increased. Ceding a larger share of the vegetable oil market to imports was preferable to expanding the crush more and possibly flooding the meal market a second straight year, the industry concluded.

From 1982's soybean crush of just under 3.6 million metric tons, Japanese oilseed processors produced 2.8 million metric tons of meal or 2.7 percent more than the year before. With soybean meal usage in formula feed rebounding 3.3 percent to 2.4 million metric tons from 1981's 6.7-percent drop, meal stocks were worked down to a less price-depressing level. Stocks would have declined even further except that relative Japanese protein meal prices again favored rapeseed meal and fish meal until late 1982. For the second year in a row, therefore, the soybean meal content of feed was just under 10.6 percent, down from a 1980 high of 11.2 percent. Rapeseed meal usage, in contrast, went up from 1.1 percent in 1980 to 1.3 percent the next year and then to a record 1.6 percent in 1982, while fish meal content expanded from 2.5 percent to 2.9 percent. These gains in turn pushed the protein meal content of Japanese feed up to 17.8 percent from 1981's depressed 17.3-percent level.

Because of a lower extraction rate last year, soybean oil production remained at 1981's outturn of 634,000 metric tons. To meet the estimated 1.6-percent increase in Japanese demand for vegetable oils, crushers again stepped up soybean oil imports, expanding them by over a fourth to 37,555 metric tons. They also initially raised output of rapeseed oil, but as the wholesale price spread between soybean oil and rapeseed oil widened during the year, production began to trail off, leaving 1982 volume at 485,000 metric tons or virtually unchanged from the year before. Rising prices also led to a one-fifth-plus cutback in imports of rapeseed oil, although purchases were still on the high side at 18,755 metric tons. Imports of premium vegetable oils, like sunflower oil and cottonseed oil, were strong as well.

Japan's soybean imports, which totaled slightly over 4.3 million metric tons in 1982, are expected this year to match 1980's record purchases of 4.4 million metric tons. Demand for soybean meal in formula feed should receive a double boost since feed production is expected to expand again and relative protein meal prices are increasingly tilting toward soybean meal because of tighter rapeseed supplies and a smaller fish catch. Relative prices also favor greater consumption of soybean oil at the expense of rapeseed oil, although total vegetable oil demand could level off. These two factors alone guarantee increased shipments by the United States, which exported 4,067,582 metric tons of soybeans valued at $970 million to Japan in 1982, including all the soybeans crushed by oilseed processors. In addition, though, crushers might take advantage of low U.S. soybean prices to increase their stocks somewhat if the yen remains at or above the present level. Last year's depreciation of the yen meant that Japan's oilseed processing industry did not benefit fully from lower soybean prices and reduced freight rates.

The one area where U.S. exporters can expect little expansion is in shipments of soybeans for food use, which accounts for just under a fifth of Japan's soybean consumption. Food-grade soybean demand is increasing no faster than the rate of population growth, slowed by stable demand for miso and only marginally rising demand for tofu, the outlet for more than half of Japan's food-grade soybean supply. Moreover, domestic production of soybeans hit 226,000 metric tons in 1982. With output at its highest level since 1965 and all of this tonnage going into food production, American exports of soybeans for food will probably not be much above last year's estimated volume of 650,000 metric tons.

Livestock Products

While American pork exporters were not counting on a repeat of 1981's large sales gain last year because of a projected recovery in Japanese pork production, they did at least hope to match their 1981 export tally. The depreciation of the yen on top of comparatively premium U.S. prices dashed these expectations. Domestic pork output increased as forecast, expanding 2.3 percent to over 1.4 million metric tons, but with retail prices up again despite generally stable wholesale prices, household purchases, which account for about half of Japanese pork consumption, declined for the second year in a row. This drop eliminated most sales of table pork by importers, the marginal suppliers. At the same time, ham, sausage and bacon manufacturers upped their usage of domestic pork in expanding output last year, in part because of the improved price competitiveness of Japanese pork relative to purchases from the United States and in part because certain cuts normally supplied by Denmark became unavailable after a foot-and-mouth outbreak there led to a ban on Danish imports from April on. Since processors take perhaps four-fifths of imported pork, their scaled-back consumption of foreign pork was a major blow to overseas suppliers. Total imports were off 2.2 percent from 1981's record level to 141,086 metric tons, while U.S. shipments fell by about the same margin to 30,238 metric tons worth $111 million.

Although Japanese broiler meat output rebounded 6.6 percent last year to nearly 1.2 million metric tons after dipping in 1981 for the first time ever, chicken imports, which had soared two years ago, still went up another 5 percent to 102,927 metric tons on strong market demand. Family purchases turned back up, thanks to declining chicken prices and a shift from pork. In addition, institutional demand continued to expand — an important development since hotels and restaurants, particularly fast-food outlets, account for just under half of Japan's chicken consumption. Unfortunately for U.S. exporters, the drop in the yen's value cost them sales to retailers as well as to the hotel-restaurant trade, both of which increased their purchases from Thailand. Sales of American bone-in legs did increase slightly, but overall U.S. poultry exports fell by a sixth to 54,716 metric tons valued at $68 million.

Japan's beef production expanded in 1982 for the third straight year, increasing 2.2 percent to 481,125 metric tons, with 70 percent of this amount coming from fattened dairy steers and older culled cows. The larger supply kept retail beef prices fairly stable, thereby spurring another gain in family purchases, which account for roughly three-fifths of Japanese beef consumption. For overseas suppliers, however, the increase in domestic output was bad news since total imports were maintained close to their 1980-81 level of roughly 122,000 metric tons. U.S. beef shipments did advance, going up by more than a fifth to 52,362 metric tons worth $232 million. In a repeat of 1981, most of last year's export volume was reportedly added to the stocks held by the Livestock Industry Promotion Corp., rather than released to the market, as the semipublic agency tried to keep returns to domestic beef producers high.

Despite another projected gain in Japanese beef production this year, imports from the United States are likely to expand again, primarily because the government committed itself during the multilateral trade negotiations to 30,800 metric tons of grain-fed beef imports during the year ending in March 1984. Assuming the yen does not sag in value, U.S. sales of broiler meat should recover in 1983, helped by continuing strong retail and institutional demand. A firmer yen is not likely to do much for American pork exporters, though, since their market opportunities are expected to be limited again by relatively high U.S. prices as well as by lack of availability of pork that meets Japanese specifications in terms of carcass quality and cutting and packing conditions.

The outlook for 1983 exports of livestock by-products is even dimmer. At best, U.S. sales of whole cattle hides will remain at last year's depressed level of 6.4 million pieces valued at $207 million. Japan's tanning industry, which relies on American supplies for about two-thirds of its requirements, has been hard hit in recent years by increasing demand for manmade leather and by a diversification in leather consumption from real leather only to real and artificial leather mixed with other materials, and there is no sign of any let-up in these trends. Similarly, American exporters of inedible tallow will be lucky this year to hold sales to 1982's reduced level of 69,332 metric tons worth $34 million because of continuing flat demand for fatty acids and soaps and greater competition from palm oil.

Wheat

The story of the Japanese wheat market in 1982 is the now-familiar one of virtually no growth in wheat flour consumption and flat wheat imports. Through its control over the volume of wheat shipped into the country and the price at which it as well as domestic wheat are resold to flour millers, the government's Food Agency has tried in recent years to slow the decline in Japanese rice consumption at the expense of increased demand for wheat. It has limited the expansion of wheat allocations to the milling industry to less than the rate of growth in apparent demand for processed wheat products. The government agency has also boosted wheat wholesale prices by larger margins than rice resale prices in an attempt to tilt relative prices back in favor of rice. Wheat resale prices were hiked an average 14.1 percent in February 1980 and another 5.6 percent in April 1981. They were left unchanged in 1982 despite a 3.9-percent rise in the resale price for rice because of the Food Agency's larger-than-expected profits on imported wheat and intense lobbying by end users, but a further increase in wheat wholesale prices — this one averaging 8.2 percent — went into effect in February.

While the government is losing the battle to stem the fall in rice consumption, its direct and indirect wheat pricing policies have contained the expansion of wheat flour consumption to a marginal rate at best. Last year, incomplete data indicate, flour usage was in fact flat, as output gains for wet and dry noodles and pasta products were offset by lower production of bread and instant noodles. Also helping to hold down flour consumption, though, was another jump in imports of wheat products, which are not controlled by the government. Foreign-made spaghetti, in particular, has carved out a significant market in Japan, and by 1982 pasta imports were equal to 9 percent of Japanese production, compared with 3 percent just five years before. Imported dry noodles, too, have fared well in the Japanese market.

For wheat growers in the United States, Canada and Australia, low to no growth in Japanese flour consumption has kept imports of wheat for food use at 4.4 million metric tons in each of the past three years. Actually, exporters were lucky to hold shipments at this level in 1982 since domestic wheat production increased by 155,000 metric tons to 742,000 metric tons, the highest outturn since 1969. This year exporters will almost certainly not be so fortunate since the latest hike in wheat resale prices virtually guarantees no increase in flour consumption. Moreover, wheat production in Japan is currently projected at a minimum of 710,000 metric tons.

U.S. exporters, which shipped 3,345,458 metric tons of wheat to Japan in 1982 for sales of $564 million, might pick up some additional business this year if, as expected, Australia's drought-reduced 1982 crop curbs exportable supplies. The Food Agency is most likely to shift purchases of wheat for feed use to the United States, normally the source of about half the 1.2 to 1.3 million metric tons of feed-use wheat imported annually. But this outlet for wheat in Japan promises no more long-term growth possibilities for American producers than wheat for food use. Consumption of whole wheat in feed rations is limited by its relatively high price to about 0.7 percent of all ingredients, while demand for wheat to produce bran as a primary product is restricted by the slow expansion of the dairy herd.

Fruits and Vegetables

Ironically, U.S. fresh citrus exports held up better in 1981, when the trade was disrupted by Japan's quarantine on California produce, than they did last year with the market back to normal. Lemon sales, for one, were down in 1982 at 107,281 metric tons worth $69 million, mainly because the drop in the yen's value hiked costs to importers by 15 to 20 percent during the peak selling season. At 139,792 metric tons valued at $47 million, grapefruit exports were also off, hurt by the lower value of the yen as well as by plentiful supplies of other domestic and imported fresh fruit and sluggish consumer demand. Orange sales did go up again in line with the expansion of Japan's import quota and hit 83,010 metric tons valued at $51 million. Interestingly, the extremely profitable orange import business turned sour during the heavy summer import season because of a temporary glut of fresh fruit on the market, and Japanese buyers lost money for the first time on orange purchases from the United States.

The problems citrus traders ran into in 1982 have made them more cautious this year about buying U.S. grapefruit and lemons, which face the additional constraint of flat

Japanese demand. Orange exports, though, should be unaffected by the financial bath importers took last year, benefiting from a 5,000-metric-ton increase in the FY 1983 import quota to 82,000 metric tons. Sales of frozen french-fried potatoes, already at $25 million, should also score another major gain in light of the continuing growth of Japan's fast-food industry, and exports of frozen corn and other frozen vegetables, which were pushed down in 1982 by the yen's depreciation, could rebound with the rise in the value of the currency. So, too, could raisin sales, depending on the size of the U.S. crop.

Cotton

Despite some encouraging signs at the beginning of the year, Japan's cotton spinning industry failed once again in 1982 to turn the corner on profitability. Yarn prices, which had returned to profitable levels by late 1981 after bottoming out at mid-year, continued to top year-earlier quotes during 1982's first quarter, pushed up by the participation of most spinners in a voluntary 15-percent production-curtailment program and stronger domestic demand for cotton goods. The upward movement in domestic yarn prices was brought to a quick halt, however, by the industry's old Nemesis — imports, which shot up as the differential between Japanese and Korean and Pakistani yarn prices widened.

Although lower-priced imported cotton goods continued to pour into the Japanese market and exports were hobbled by the worldwide recession, spinners were able to work down stocks of cotton goods (yarn, fabric and made-up articles) to more manageable levels in the spring and summer, thanks to the extension of voluntary production cuts, then targeted at 10 percent, and good domestic demand. But smaller inventories did little to prop up sagging yarn prices, which fell in most months to their lowest point in at least four years. Moreover, cotton goods stocks began to build again in 1982's last quarter, putting additional pressure on yarn prices. By year-end, stocks, once 10 percent below early 1981's peak, were only 5 percent under it and rising.

It was hard to tell from Japan's 1982 raw cotton purchases that spinners were losing the battle for profits since imports hit an extraordinary 784,134 metric tons. A glance at the cotton yarn production data gives one clue why imports went up: despite yearlong production restraints, yarn output, which had dropped 9.6 percent in 1981, increased 3.2 percent. In addition, Japanese cotton buyers took advantage of favorable American prices for premium growths to economically rebuild their relatively low stocks. This development boosted U.S. shipments to a record 339,320 metric tons valued at $501 million and gave American growers an unusual 45-percent share of the Japanese cotton market. Attractive U.S. prices, though, were not much help to spinners because the yen's depreciation wiped out most of the benefit lower prices would have had on margins.

On top of their perennial problem of unprofitable yarn prices, spinners have a new worry this year: where the high-quality cotton they need for high-count yarns will come from until the 1983 crop is available, now that the U.S.S.R., normally the number-two supplier, has temporarily pulled out of the Japanese market. Some replacement shipments out of the abundant 1982 U.S. crop have been lined up, but the price premiums commanded by quality California growths have widened. This spells further losses for spinners unless domestic demand perks up and industry compliance with the current 20-percent production-cutback program improves. For U.S. exporters, too, these are big question marks, making shipment levels in the second half of 1983 uncertain after a projected strong first half. What could help both sides is that weak yarn prices might shut off some yarn imports, which jumped by a half in 1982 to a new high, triggering the filing of the first dumping complaint ever in Japan.

Tobacco

Since the quality of domestically grown tobacco is inferior, it must be blended with high-quality imported leaf to produce the cigarette brands demanded by Japanese smokers. The Japan Tobacco and Salt Public Corp. (JTS) — the sole buyer of both domestic and imported tobacco as well as Japan's only manufacturer and wholesaler of tobacco products — sources a little more than a third of its leaf requirements from foreign growers, particularly American producers of flue-cured tobacco. Over the past three years, however, its overseas purchases have been flat even though stocks of imported leaf, at unusually high levels in the late 1970s because of earlier overbuying, had been drawn down by the 1981 marketing season to the 24-month supply that the JTS likes to maintain to insure proper aging.

The maturity of the Japanese cigarette market has certainly capped the JTS's demand for imported leaf. Cigarette consumption increased in FY 1981 for the first time in seven years, and it inched up again in the April 1982-March 1983 period to 15.5 billion packs, but these marginal gains still left cigarette consumption below its peak. Moreover, part of the rise in demand in the last two years was met by expanded cigarette imports, which supplied 1.5 percent of the market in FY 1982. Improved cigarette manufacturing technology, increasing use of sheet tobacco, and longer filters have also cut the JTS's requirements for leaf, whether foreign or domestic.

Cigarette consumption in Japan is expected to turn down again this year, partly because of a continuing decline in the proportion of the population that smokes but mainly because of the cigarette tax hike that goes into effect May 1. Projected sales gains for foreign-made cigarettes will also blunt the growth of the JTS's tobacco imports. Still, U.S. exporters should be able to maintain leaf sales close to 1982's level of 50,041 metric tons valued at $310 million as long as the quality grades the JTS normally buys from this country are available in quantity, as they were in both 1981 and 1982. At the margin, though, increased third-country competition for the JTS's imported burley tobacco requirements and, to a lesser extent, its flue-cured leaf needs could cost American growers some sales.

For further information, contact Susan MacKnight.

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Table 1: U.S. Agricultural Exports by Country, 1978-82*

(in millions of dollars)

	1978	1979	1980	1981	1982(p)
Total	$29,384	$34,745	$41,233	$43,337	$36,622
Japan	4,435	5,255	6,111	6,562	5,547
Netherlands	2,327	2,619	3,412	3,300	3,042
U.S.S.R.	1,687	2,855	1,046	1,665	1,855
Canada	1,621	1,650	1,836	1,989	1,805
Korea	1,148	1,441	1,798	2,008	1,581
China	573	990	2,210	1,956	1,498
Spain	822	930	1,129	1,268	1,459
West Germany	1,503	1,404	1,831	1,758	1,448
Mexico	903	1,024	2,481	2,432	1,156
Taiwan	825	1,074	1,095	1,145	1,155
Italy	1,001	1,005	1,094	1,177	941
Belgium-Luxembourg	462	540	600	852	904
United Kingdom	1,051	1,057	996	961	896
Egypt	554	601	771	967	800

*Not adjusted for transshipments through Canada, the Netherlands or Belgium.

Source: U.S. Department of Agriculture

Table 2: Major U.S. Agricultural Exports to Japan, 1980-82

	Quantity (in metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	---	---	---	$6,110,676	$6,562,294	$5,547,189
Corn*	11,823,221	11,829,387	11,435,090	1,624,657	1,781,403	1,274,991
Grain Sorghum*	3,779,643	2,904,463	1,869,976	496,101	408,774	205,498
Soybeans*	4,032,867	4,001,380	4,067,582	1,105,238	1,137,878	970,044
Soybean Meal	245,505	82,135	48,687	65,161	22,832	10,507
Alfalfa Meal and Cubes	374,069	313,420	424,812	47,961	40,027	55,293
Dried Beet Pulp	492,989	404,387	336,351	67,977	63,537	49,422
Wheat	3,330,762	3,364,301	3,345,458	596,183	615,025	563,648
Cotton**	309,522	279,627	339,320	525,934	503,565	500,605
Beef and Veal***	33,463	42,879	52,362	137,320	157,856	232,396
Beef and Veal Offals***	28,568	32,188	31,503	84,135	99,645	96,992
Pork***	27,563	39,808	30,238	95,248	143,166	111,400
Poultry***	43,145	64,818	54,716	53,455	81,461	67,639
Whole Cattle Hides****	7,440,937	7,495,175	6,443,988	250,834	255,121	207,170
Inedible Tallow	106,113	87,520	69,332	50,183	39,780	33,870
Lemons	101,638	116,846	107,281	63,351	66,293	69,050
Grapefruit	128,993	159,366	139,792	45,806	59,104	47,340
Oranges	70,797	76,821	83,010	27,803	44,449	51,300
Raisins	15,157	16,167	15,477	25,377	29,802	25,850
Frozen Vegetables	77,530	83,000	71,515	45,616	56,986	53,851
Almonds	9,596	9,598	13,330	41,275	37,476	36,967
Peanuts	25,804	7,730	18,733	19,824	7,468	14,833
Tobacco	37,256	53,063	50,041	197,159	301,698	309,920

*Excludes seed.
**Excludes linters.
***Fresh, chilled or frozen.
****Quantity in number of pieces.

Source: U.S. Department of Agriculture

Table 3: U.S. Exports of Corn, 1980-82*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	62,996	54,711	48,772	$8,483,995	$7,929,193	$5,579,853
Japan	11,823	11,829	11,435	1,624,657	1,781,403	1,274,991
U.S.S.R.	4,228	5,396	6,968	602,156	781,675	818,768
Spain	2,643	2,980	3,748	332,280	404,499	428,021
Korea	2,313	2,216	2,880	316,152	323,825	331,713
Belgium	1,801	1,903	2,320	247,725	257,906	255,986
Portugal	2,533	2,735	2,241	329,190	378,733	251,718
Taiwan	1,997	1,480	1,902	271,366	237,910	238,328
China	1,667	468	1,591	224,540	62,466	189,358
East Germany	2,336	1,239	1,396	331,687	184,175	159,494
Egypt	984	1,344	1,181	130,976	189,328	136,157
Netherlands**	1,950	1,796	1,093	252,424	246,839	131,203
United Kingdom	1,597	1,280	1,108	203,016	177,493	119,667

*Excludes corn donated for relief as well as seed and popcorn.
**Not adjusted for transshipments.

Source: U.S. Department of Agriculture

Table 4: U.S. Exports of Grain Sorghum, 1980-82*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	7,997	8,000	6,015	$1,051,284	$1,150,585	$692,255
Japan	3,780	2,905	1,870	496,101	408,774	205,498
Mexico	2,403	2,088	1,413	318,558	329,922	165,498
Venezuela	44	722	502	5,999	101,881	62,054
Spain	594	555	520	70,773	65,060	58,307
Korea	0	133	402	0	16,148	46,820
Israel	341	446	340	42,876	63,342	40,473

*Excludes seed.

Source: U.S. Department of Agriculture

Table 5: U.S. Exports of Soybeans, 1980-82*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	21,779	21,830	25,475	$5,879,942	$6,185,529	$6,217,747
Netherlands**	5,392	4,394	5,112	1,457,679	1,283,429	1,324,218
Japan	4,033	4,001	4,068	1,105,238	1,137,878	970,044
Spain	1,721	1,910	2,968	456,024	520,204	693,040
West Germany	1,451	2,025	2,044	398,517	566,833	507,148
Belgium	593	1,041	1,405	154,071	286,821	327,756
Taiwan	936	1,053	1,127	261,673	314,169	285,560
Italy	838	961	906	227,244	271,392	209,861
France	636	628	848	166,095	172,113	195,195
U.S.S.R.	173	34	649	45,322	8,432	171,264
United Kingdom	449	519	640	120,450	140,946	152,626
Korea	564	425	588	155,482	124,027	141,879

*Excludes seed and soybean meal.
**Not adjusted for transshipments.

Source: U.S. Department of Agriculture

Table 6: U.S. Exports of Wheat, 1980-82*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	35,640	43,839	40,651	$6,356,926	$7,831,849	$6,655,050
China	6,105	7,442	6,826	1,039,309	1,268,977	1,046,693
U.S.S.R.	1,769	4,082	4,295	336,084	772,563	802,182
Japan	3,331	3,364	3,346	596,183	615,025	563,648
Brazil	2,010	2,995	2,551	363,397	551,339	428,969
Korea	1,946	2,032	1,874	322,780	357,744	298,758
Egypt	1,214	1,941	1,806	208,773	324,285	276,945
India	24	1,375	1,522	3,773	237,032	247,758
Nigeria	993	1,197	1,281	180,068	224,098	213,922
Chile	964	984	1,074	172,658	178,201	169,551
Indonesia	768	724	968	134,620	129,566	155,655
Philippines	749	837	914	140,814	157,949	155,403
Peru	662	919	950	116,970	164,427	155,089
Venezuela	686	891	713	134,948	174,225	125,690
Italy	484	831	603	88,654	162,474	104,629

*Excludes wheat donated for relief.

Source: U.S. Department of Agriculture

Table 7: U.S. Exports of Cotton, 1980-82*

	Quantity (in thousands of metric tons)			Value (in thousands of dollars)		
	1980	1981	1982(p)	1980	1981	1982(p)
Total	1,823	1,269	1,392	$2,864,151	$2,259,979	$1,955,238
Japan	310	280	339	525,934	503,565	500,605
Korea	305	286	319	466,440	489,532	425,432
Taiwan	149	75	175	203,303	112,430	208,322
China	463	249	117	701,298	463,965	177,771

*Excludes linters.

Source: U.S. Department of Agriculture

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JAPAN · ECONOMIC · INSTITUTE

JEI

REPORT

No. 18A

May 13, 1983

REVIEW OF THE 1982 JAPANESE ECONOMY

Summary

The Japanese economy slowed down last year, dashing hopes for a quick recovery, and the government revised its economic forecast twice -- from 5.2 percent to 3.4 percent and again to 3.1 percent. Although housing expenditures were expected to boost economic growth, residential construction actually declined. Meanwhile, a slump in exports resulting from the worldwide recession further depressed economic growth. Private capital spending fell, as a deterioration of corporate profits forced up the unemployment rate to 2.48 percent -- the highest level since 1956. Only personal consumption showed a firm gain. With the government unable to employ fiscal policy because of the large budget deficit, and the Bank of Japan reluctant to cut the discount rate and risk further yen depreciation, the economy stagnated for another year.

Fiscal 1982 Projections

The government of Japan initially forecast that real growth would recover to 5.2 percent in fiscal 1982 (April 1, 1982 to March 31, 1983), with domestic and external demand contributing 4.1 percentage points and 1.1 percentage points, respectively. In the first category, personal consumption was to pick up by 3.9 percent, housing investment by 10.4 percent, and private capital investment was expected to grow 7.7 percent. Efforts to resolve the budget deficit were continued, but the adoption of policies to spur domestic demand, particularly housing investment, was expected to improve the performance of both domestic and external sectors. Prices were projected to hold steady, with modest increases in consumer prices (4.7 percent) and wholesale prices (3 percent).

In view of the tremendous pressure on Japan to pare its trade surplus, the government announced that measures would be taken to assure harmonious economic relations by further opening the Japanese market, facilitating imports, avoiding excessive concentration of exports of specific products and encouraging industrial cooperation. But trade frictions proved unresponsive to these blandishments and declines in production were widespread. Despite an unexpectedly strong surge in personal consumption, the economy recovered very slowly, plagued by a drop in exports corresponding to the stagnant world economy, and weak housing investment even though more liberal loan and tax policies favoring home ownership were in place. As a result, the number of job openings appears to be tightening and certain industries are showing structural problems.

GNP Growth By Sector

Personal Consumption — After consumer demand stagnated in 1980-81 as a result of a decline in real income, it rose 1.0 percent in the January-March quarter, 2.3 percent in the second quarter, 0.4 percent in the third quarter and 1.5 percent in the final quarter of 1982. Household spending also rose a surprising 2.7 percent — the first real growth in three years, after sinking 0.6 percent in 1980 and 0.8 percent in 1981. This recovery can be traced to an increase in real income and a sharp drop in inflation. Real income of salaried households averaged ¥393,000 (about $1,660) a month in 1982, a 3-percent increase in disposable income after declines of 1.4 percent and 1 percent in 1980 and 1981. Consumer prices held at 2.7 percent, compared with increases of 8.0 percent in 1980 and 4.9 percent in 1981, and personal consumption expenditures remained at a high level.

The salient point in consumer behavior last year was the extent to which spending for services increased, as shown in total supermarket sales. Supermarkets registered the smallest increase on record — 1.6 percent in 1982; the elasticity of supermarket sales to household expenditures has been 1.0 in the last five years, but declined to 0.84 in 1981 and will drop to almost 0.5 in 1982. Even if unemployment continues at the same level, the deceleration of inflation and gains in real income suggest that the rise in consumption will continue for some time.

Housing Investment — To the consternation of government forecasters, private residential construction declined by 1.6 percent in 1982 despite hopes that a 14-percent increase to 1.3 million housing starts would materialize. Deterred by the high price of land, new housing starts actually slipped 0.5 percent from the previous year to 1.14 million units — the fourth consecutive annual decline. The lag was most evident in apartment construction, the weakest element of which, condominiums, slowed by 24.2 percent.

But some improvement is expected. A survey by the National Land Agency showed land prices up an average 5.1 percent in 1982, compared with the 8.3-percent increase in 1981. As long as the price increase is below mortgage interest rates (presently averaging 8.34 percent), and below the return on alternative investments such as the 5.75-percent interest on one-year time deposits, speculative demand in real estate will be dampened because high capital gains will no longer be assured. With consumer demand high and a slowing of the price increase for land, this sector should begin to strengthen. In addition, stable construction and labor costs and an expected decline in mortgage interest rates will stimulate demand and contribute to an increase in new construction and housing rehabilitation projects.

Private Capital Investment — Real capital spending slowed to 0.1 percent in the first quarter of 1982, 0.5 percent from April to June, 0.6 percent in the third quarter and minus 0.2 percent in the final quarter of the year. Capital spending in plant and equipment by large companies was firm in 1982, while business investment by small- and medium-scale firms was stagnant, a result of depressed business conditions and a

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contraction in export orders. In raw material industries, which have been adjusting to the rising costs of oil by investing heavily in energy-saving equipment and rationalization, capital spending has been increasing since 1976. However, the decline in exports that began in the latter half of 1981 has lessened incentives for capital spending in raw material, processing and assembling industries. The current year promises little improvement if the economy does not rebound.

Inventory Liquidation — Inventories in raw-material industries were worked down by the third quarter, but in the processing industries and in steel fabrication — both of which are trade-dependent, inventories increased. Inventories on a GNP basis have been declining since 1975, with the exception of 1982's fourth quarter, largely because of retrenchment, better inventory control, and the development of the service sector. Inventory movement, though, has been low enough to depress the economy by reducing production activity, which last year rose only 1.1 percent. Inventories of final products, however, increased in 1982, because production cuts in export-related industries came too late to compensate for the rapid decline in exports.

Government Expenditures — While total spending for public works in the FY 1982 budget was held at the same amount as in the previous year's budget, the government decided in April to advance to the first half of the fiscal year 77.3 percent of the whole year's appropriation. In October, the government instituted a $7.7-billion economic recovery package, including a boost in public works spending.

External Sector

Japan's exports began to decline in 1981 and were far from robust in 1982 despite the yen's depreciation. Exports to all regions, including the oil-producing countries, fell victim to the worldwide recession, abundant inventory stocks, and trade frictions with the United States and European Community (EC) countries. A number of items were subjected to some kind of export restraint, including automobiles, motorcyles, color televisions, video tape recorders, machine tools, textiles and steel products. Export totals for 1982 slid to $138.4 billion, an 8.7-percent decline. By region, exports to the United States totaled $36.3 billion, down 5.9 percent; and to the EC $17.1 billion, down 9.6 percent. An official of the Ministry of International Trade and Industry (MITI) said that he considered fluctuations in foreign-exchange rates responsible to some extent for the decline in exports, noting that recovery will depend on more stability in the money markets.

The effects of slowed industrial production and residential construction were apparent in the reduced demand for raw materials and fuel in 1982. In addition, increases in imports in the second half of 1981 pushed up raw material inventories so that stocks of oil and lumber were excessive. With the yen sinking throughout much of the year, moreover, domestic goods enjoyed a hefty competitive edge over their imported rivals. And finally, imports of gold — which had increased rapidly in 1981 — fell 7.9 percent in 1982.

Imports from the United States fell 4.5 percent during the year to $24.2 billion, reducing the bilateral trade surplus to $12.2 billion, down from the $13.3-billion peak reached in 1981. Imports from the EC also fell 11.6 percent to $7.6 billion resulting in a trade surplus of $9.5 billion (compared with the high of $10.3 billion in 1981).

Japan's global trade surplus for 1982 on a customs clearance basis (exports f.o.b. and imports c.i.f.) dropped to $6.9 billion from $8.7 billion a year earlier. The current account in the international balance of payments hit $6.9 billion, compared with $4.8

billion in 1981, due to a smaller deficit in services and unilateral transfers. The reduction to $11.3 billion, down from 1981's $15.2-billion level, was made possible by a $2.6-billion rise in investment returns including earnings on direct overseas investments and interest and dividend receipts. The long-term capital outflow, propelled by a variety of economic factors, shot to a record $15 billion, as against last year's $6.4 billion.

Fiscal Policy

Concern that an increase in government spending would worsen the deficit and require additional bond borrowing led the government to propose an austere budget. The measure limited the increase to 6.2 percent (including non-discretionary debt service and payments to local governments), although overall discretionary expenditures actually rose by only 1.8 percent. But peremptory calls for stimulative fiscal measures in the following months essentially forced the government in October to adopt a recovery package, including measures to boost public works funds, assist small businesses, and take action to stimulate employment and construction. These measures, which were expected to spur the GNP to a 3.4-percent level, were authorized but not actually funded. When the supplementary budget — actually a revision — was passed, there was no increase, although there was some shifting to provide funds for public works. The original budget was, in fact, cut overall to bring expenses in line with unexpectedly low tax revenues.

Monetary Policy

Quantitative controls on lending through window guidance were relaxed in 1982, but stagnant demand essentially precluded a positive impact. A discount-rate cut in December 1981 to 5.5 percent lowered interest rates in the first few months of the year, but the Bank of Japan began guiding short-term interest rates to a higher level in order to prevent further yen depreciation produced by the interest differential between the United States and Japan. Both the rise in short-term interest rates and the large issues of public bonds supported the yields of long-term bonds. And with inflation declining, real interest rates were kept at a high level, diminishing the effects of monetary relaxation compared with the response to the 1977-78 relaxation. In sum, the effects of fiscal-monetary policy in 1982 were negligible because the authorities held down growth in public expenditures and because interest rates remained at a relatively high level to control the yen's depreciation.

Price Movements

Wholesale prices were up 2.5 percent in the first quarter (over the same period in the previous year), and subsided thereafter to average 1.8-percent above the previous year. The effect of yen depreciation accounted for an increase in wholesale prices of 2.2 percent. Weak export shipments and high inventories also caused export prices to decline by 3.5 percent (apart from the effects of yen depreciation), particularly in textiles, metal products and electrical equipment. Import prices also fell 2.7 percent in value, largely due to low grain prices. Thus, consumer prices registered a low 2.7-percent increase — owing to stable prices for manufactured products, low produce prices and moderate utility rates. Moreover, wholesale and consumer price inflation will probably be even lower in 1983 because of the relatively low wage increases.

Labor

The unemployment rate reached a peak of 2.48 percent in June and in October, and remained at a high level through 1982 in response to cyclical and structural factors. Lower economic growth and the labor supply situation, including more women in the labor force, unemployment of older workers, and the changing industrial structure worked to hike the unemployment figures.

Outlook for 1983

The official forecast for Japan's gross national product in real terms is 3.4 percent in FY 1983, with domestic and external demand contributing 2.8 percentage points and 0.6 percentage points, respectively. Economists differ, however, on the proper interpretation of present conditions. The Ministry of Finance (MOF) is convinced that the signs of economic recovery are strong. Personal consumption, it notes, has been firm, with increases in purchases of durable goods, housing and expenditures for services. This pickup, it says, has speeded inventory adjustment and will benefit corporate profits in the first half of FY 1983. But this view may stem more from its political orientation, since the MOF is campaigning against fiscal interventions such as an income-tax cut and additional expenditures for public works.

The governor of the Bank of Japan, Haruo Maekawa, has said that while the Japanese economy has bottomed out, he does not expect a rapid recovery. This is the first time the governor has suggested this scenario, and he cited signs of a recovery in exports, some progress in inventory adjustments, and declining oil prices to support his view. However, he did acknowledge that the economic recovery depended on an expansion in the U.S. economy and on a solution to trade restrictions.

Economic Planning Agency (EPA) economists sound a more cautious note in the agency's monthly economic report. The bright spots in the economy — housing investment, consumer confidence and inventories — are not strong enough to provide much momentum, it warns. There is some pressure to go ahead with an income-tax cut and a stimulative monetary policy, it suggests, including an official discount-rate cut as discussed in the economic stimulus package.

The optimists rely on improving exports and falling inventories, and pin their hopes on business confidence spurred by declining oil prices and a growing recovery in the United States and Europe. The pessimists see problems in sluggish capital spending and personal consumption due to low wage increases. The final course of the economy will depend on the interaction of these developments as well as on an easing of international trade relations in 1983.

For further information, contact Yoshio Nakamura.

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Major Japanese Economic Indicators, FY 1981 and FY 1982

(percent change over previous year or quarter)

	1981				1982					
	January-March	April-June	July-September	October-December	January-March	April-June	July-September	October-December	1981	1982
Real Gross National Product[1]	¥194.6 0.9%	¥196.9 1.2%	¥198.5 0.9%	¥198.0 -0.3%	¥198.8 0.4%	¥202.6 1.9%	¥204.5 0.9%	¥205.4 0.4%	¥197.1 3.8%	¥202.9 3.0%
Personal Consumption Spending	-0.5	0.6	0.2	0.8	1.0	2.3	0.4	1.5	0.5	4.2
Private Residential Construction	2.1	2.1	-3.0	-1.6	-1.5	0.9	0.6	7.4	-2.6	-1.0
Private Fixed Nonresidential Investment	2.1	1.4	-0.3	1.2	0.1	0.5	0.6	-0.2	5.6	1.9
Change in Business Inventories	-2.6	-19.3	-44.5	158.1	-20.1	-7.7	-21.0	-17.3	-22.4	-11.9
Government Current Expenditures	2.4	-0.3	-0.8	1.2	0.6	1.5	0.8	0.4	4.6	3.5
Government Fixed Investment	3.8	-0.9	4.5	-5.4	-4.3	4.7	5.5	-4.3	5.3	0.7
Net External Sector	3.4	14.9	13.9	-15.7	3.9	0.7	4.9	1.4	52.5	3.7
Exports of Goods and Services and Factor Income Received	4.1	6.3	5.8	-3.2	1.5	-0.6	2.6	-3.2	15.9	3.3
Imports of Goods and Services and Factor Income Paid	4.4	3.1	2.4	2.6	0.6	-1.1	1.6	-5.1	5.5	3.1
Industrial Production	1.0	0.5	2.1	2.0	-1.0	-1.6	1.7	-0.6	3.1	1.1
Wholesale Prices*	-0.7	1.1	1.3	-0.3	0.4	0.3	1.0	-0.1	1.4	1.8
Wholesale Prices**	4.1	0.2	1.0	1.5	2.5	1.7	1.4	1.6	---	---
Consumer Prices*	0.9	0.5	0.9	1.2	0.3	0.2	1.0	0.7	4.9	2.7
Consumer Prices**	6.6	4.9	4.2	4.0	3.1	2.5	2.7	2.3	---	---
Current Balance[2]	$-2,076	$1,455	$3,531	$1,860	$-912	$2,582	$2,924	$2,302	$4,770	$6,896
Long-Term Capital[2]	$2,592	$-5,709	$-1,213	$-2,119	$-5,805	$-4,569	$-4,652	$19	$-6,449	$-15,007

[1] In trillions of yen.

[2] In millions of dollars.

*Compared to previous period.

**Compared to same quarter of previous year.

Sources: Economic Planning Agency, Ministry of International Trade and Industry; Prime Minister's Office; Bank of Japan.

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Japan Releases FY 1982 Current-Account Figures

The Ministry of Finance recently released the balance of payments statistics for FY 1982 (April 1982-March 1983) showing a current-account surplus of $9.2 billion — an increase from $5.9 billion in the previous fiscal year. Japan's current account has fluctuated more than that of some other industrial nations during the episodes of oil price hikes, but once those effects have worked through the system, Japan tends to return to a current-account surplus, as reflected in the data for FY 1982.

The current account is only one part of the balance of payments and should be seen in that context. It is the sum of the balance on merchandise trade, services trade and unilateral transfers, representing trade-related flows of funds in and out of the country. In addition, there are flows related to private capital transactions, divided in Japan's

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-March 1982	January-March 1983	January 1983	February 1983	March 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 2,439	$ 4,384*	$ -618*	$ 2,146*	$ 2,856*
Exports (f.o.b.)	149,522	137,663	34,994	33,314*	9,324*	11,028*	12,962*
Imports (f.o.b.)	129,555	119,584	32,555	28,930*	9,942*	8,882*	10,106*
Current Account Balance	4,770	6,850	-912	1,416*	-1,444*	947*	1,913*
Long-Term Capital (net)	-6,449	-14,969	-5,805	-3,091*	-621*	-265*	-2,205*
Overall Balance	-2,144	-4,971	-3,291	-308	-2,218	1,313	597
International Reserves (end of period)	28,403	23,262	27,231	24,015	23,593	23,754	24,015
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	-675	1,749*	-1,698	1,403	2,044*
Exports (f.o.b.)	152,030	138,831	35,460	33,255*	9,227	11,036	12,992*
Cars	18,445	18,015	4,430	4,658*	1,623	1,620*	1,415*
Steel	16,669	15,645	4,104	2,960*	853	968*	1,139*
Imports (c.i.f.)	143,290	131,931	36,135	31,506*	10,925	9,633	10,948*
Crude Oil	53,343	46,274	13,816	11,488*	4,180	3,517*	3,791*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	2,920	2,973*	604	1,100	1,269*
Exports (f.o.b.)	38,609	36,330	9,066	8,600*	2,525	2,826	3,249*
Imports (c.i.f.)	25,297	24,179	6,146	5,627*	1,921	1,726	1,980*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥237.90	¥235.40	¥239.40
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-4,661	-4,482	-1,352	-1,471	-1,659
Exports (f.a.s.)	21,823	20,966	5,354	4,806	1,601	1,424	1,781
Industrial Supplies	8,983	9,173	2,604	2,051	714	582	755
Food and Feed	5,896	4,971	1,081	1,160	373	380	407
Capital Goods	4,767	4,434	1,097	1,020	321	287	412
Consumer Goods	1,318	1,356	327	339	106	107	126
Imports (customs)	37,612	37,744	10,015	9,288	2,953	2,895	3,440
Automotive Products	12,950	12,890	3,381	3,469	1,101	1,086	1,282
Industrial Supplies	7,179	6,795	1.989	1,257	407	398	452
Consumer Goods	8,340	7,842	2,055	1,846	607	551	688
Capital Goods	8,589	9,530	2,387	2,562	790	810	962

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-February 1982	January-February 1983	December 1982	January 1983	February 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	10.7%	7.6%	7.9%	7.7%	7.4%
Industrial Production	1.0%	0.3%	2.5%	-1.6%	-2.0%	-1.7%	-1.5%
Manufacturing Operating Rate	-4.6%	-2.6%	-1.5%	-3.7%	-4.1%	-2.7%	-3.6%
Number of Bankruptcies	-1.5%	-2.8%	-4.8%	2.9%	-2.2%	1.1%	4.7%
Residential Construction Starts	-9.2%	-0.5%	-6.3%	12.2%*	2.1%	20.7%	5.2%*
Job Openings to Applications (ratio)	0.68	0.61	0.66	0.60	0.60	0.60	0.59
Nominal Wages	5.3%	4.8%	5.0%	5.9%	2.3%	5.9%	5.9%
Labor Productivity	3.5%	n.a.	3.3%	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.3%	-0.4%	0.9%	-0.1%	-0.7%
Consumer Prices	4.9%	2.7%	3.2%	2.0%	1.8%	2.0%	1.9%
Yen-Based Export Prices	1.2%	3.9%	7.4%	-4.5%	-0.1%	-3.5%	-5.5%
Yen-Based Import Prices	1.6%	7.9%	8.6%	1.2%	7.6%	2.6%	-0.3%

*Preliminary

For Japan's most recent GNP data, see JEI Report No. 11B, March 25, 1983.

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REPORT

No. 21A

June 3, 1983

U.S. IMPORTS FROM JAPAN, BY COMMODITY, 1982

Summary

The U.S. recession finally caught up with imports from Japan in 1982. After jumping by 17 percent in 1980 and an additional 22.5 percent two years ago, American purchases of Japanese-made products edged up just 0.3 percent last year to $37.7 billion. Imports of consumer goods, 1981's pacesetters with a 34.6-percent gain, declined 6 percent to $7.8 billion. Intermediate goods also reversed course, falling 5.3 percent to $6.8 billion following a 21.1-percent expansion the year before. More importantly, purchases of automotive products dipped 0.5 percent to $12.9 billion on the heels of 1981's 13.2-percent increase. Only capital goods, in fact, showed any signs of buoyancy, but the 11-percent rise to $9.5 billion chalked by this end-use category fell far short of the 31-percent advance posted in 1981.

Import Highlights

Automotive Products - Lackluster economic conditions, steep interest rates, and high sticker prices turned 1982 into the worst sales year for the U.S. auto industry since 1961. The weak U.S. market also played havoc with sales of Japanese-built cars, which were hamstrung as well by short supplies -- the outgrowth of the first full year of Japan's restraints on car shipments to the United States. This cap trimmed deliveries from Japan by 8.7 percent to 1,712,725 units, although higher prices and an upgraded product mix limited the decline in the import value to 1.7 percent, for purchases of just under $9.2 billion. Along with slumping domestic demand, it also shaved aggregate retail sales of Japanese nameplates by 3.1 percent to 1,801,481 vehicles -- the second decline in as many years, but the relative marketing impact of the two constraints varied from make to make and from one selling season to the next.

U.S. importers of Japanese cars went into 1982 with combined inventories equal to a 52.5-day supply, which was not only below the desired 60-day level but also light for the slow-selling winter season. While stocks of some makes were far skimpier, aggregate inventories ranging down to a 42-day supply during the spring were generally less of an obstacle to sales during this normally heavy buying season than the economy. In fact, no Japanese nameplate scored a sales gain for 1982's first half, and most failed to match their year-earlier sales tally in each of these six months. With demand beginning to perk up over the summer, though, stock levels become more of a sales factor since inventories usually hit their yearly low just before new-car introduction time in September or October. All Japanese makes did post sales gains for the July-December period despite stocks averaging only a 39-day supply on October 1 and just a slightly better 43.5 days on December 31, but the increases were relatively small considering how bad sales were in the second half of 1981 and how much demand had picked up over this time.

Toyota Motor Corp. and Honda Motor Co., Ltd. dealers were stymied all year by stocks below a 30-day supply and often under 25 days, and the results showed up in their bottom lines: an 8-percent sales drop for Toyota to 530,246 cars and a 1.3-percent dip for Honda to 365,865 units. Inventories of Subarus, manufactured by Fuji Heavy Industries, Ltd., although not as low as Toyota and Honda stocks, were still lean enough to put a lid on sales. In contrast, supplies of Nissan Motor Co., Ltd.-made Datsuns remained at or above the 60-day level throughout 1982, helping the number-two import to finish the year with a 1.2-percent sales gain to 470,246 cars. Nissan, in fact, was the only Japanese maker able to increase sales. Toyo Kogyo Co., Ltd., the manufacturer of Mazda cars, failed in its effort despite U.S. stocks close to the desired level, while bulging inventories were of little help to Mitsubishi Motors Corp., which now sells under its own name in addition to producing cars for Chrysler Corp., or to recent arrival Isuzu Motors, Ltd.

At the same time that the state of the American economy and the ceiling on car shipments were making life difficult for Japanese automotive manufacturers in the U.S. car market, General Motors Corp., Ford Motor Co. and Chrysler were giving them a run for their money in the truck market with the first domestically designed and built compact pickups. The new competition proved to be expensive for the Japanese industry, which had developed and virtually monopolized the U.S. small pickup truck market in the 1970s. Companies that manufacture compact pickups for sale by the Big Three saw their orders dwindle as Detroit put all of its marketing muscle behind its U.S.-made lineup. (This development was largely responsible for the 19.1-percent cutback in the number of trucks brought in from Japan to 363,902 units and the 16.5-percent drop in their import value to $1.5 billion.) Moreover, Toyota, Nissan, Toyo Kogyo, Isuzu and new-to-the-market Mitsubishi were forced to offer more sales incentives as well as run expensive television and print advertising campaigns and put stripped-down price-leader models on the market to counter the heavy promotional efforts of their American competitors. For Toyota and Toyo Kogyo, these aggressive marketing tactics paid off in record 1982 sales; for Nissan, which is ready to start trial production at its Tennessee pickup truck assembly plant, they did not.

Capital Goods - The deepening U.S. recession in 1982 took a heavy toll on capital spending, whether for equipment made in the United States or brought in from Japan. The machine tool business was particularly depressed, but it was hard to tell from the import data that orders from the automotive, aerospace, industrial machinery and other big machine tool user industries dropped for the third straight year since purchases from Japan fell by only 14.8 percent to $0.6 billion-plus. Still, Japanese builders of numerically controlled lathes and machining centers, which had gained market share in the late 1970s by providing quick delivery of technologically innovative products at competitive prices, were no more successful in generating new business than their American counterparts, despite the availability of deep discounts, creative financing

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deals, and other generous sales incentives. By the end of 1982, consequently, several thousand unsold Japanese machine tools were sitting in U.S. warehouses -- enough to supply American job shops and other small and medium users for up to a year.

One exception to the trend of curbed U.S. capital spending in 1982 was copiers, where vendors managed to chalk up a fairly healthy volume gain for the industry, although the value of Japanese-made imports did slip 3.8 percent to just over $0.6 billion. Dealers were able to boost sales partly because Japanese manufacturers, which dominate the big American market for low-volume copiers, continued to expand the range of convenience features available on these inexpensive desktop machines and to increase their lineup of high-performance models in the medium-volume segment of the market. What really helped vendors sell more copiers, though, was another industry-wide round of steep price cuts -- the product of stiff competition among Japanese makers to maintain or gain market share in 1982's recessionary climate and Xerox Corp.'s successful efforts to reverse its loss of market share to Japanese producers.

Helped by steadily falling prices, the U.S. market for semiconductors also remained generally immune to the economic downturn. Demand for memory devices, centering on 64-kilobit dynamic random access memories (RAMs), was particularly strong, a by-product of fast-paced gains in the computer industry. With just five U.S. semiconductor makers supplying the merchant 64K RAM market and only two shipping in volume, Japan's six large-scale exporters upped their unit shipments by roughly three-fourths. This jump was responsible in large measure for the 51.6-percent advance to $0.5 billion in semiconductor purchases from Japan last year, but it translated into a smaller share of the American 64K RAM market -- perhaps one-half -- than the approximate two-thirds share Japanese manufacturers had in 1981.

Consumer Goods - Despite bloated dealer inventories of video cassette recorders (VCRs) going into 1982 and fresh competition for the consumer dollar from home video games and home computers, Japanese consumer electronics manufacturers continued to put VCRs into the U.S. pipeline at record rates last year. By year-end, nearly 2.5 million units had moved into the distribution system -- 24 percent more than in 1981, carrying an import tag of well over $1 billion. The result was predictable: one of the price wars that periodically wrack the consumer electronics market broke out. VCR sales picked up steam in this buyers' market and were capped by a heavy Christmas season. The increased retail volume plus some restraint in shipments from Japan late in the year trimmed dealer inventories to more manageable levels by 1982's close, but with prices cut almost to the breakeven point, few vendors made money on VCRs last year.

Japanese motorcycle manufacturers, misled by unexpectedly strong sales in 1981, badly overestimated U.S. demand for their product last year. Instead of remaining relatively resilient, motorcycle demand largely collapsed in reaction to near-record unemployment among young male blue-collar workers, who make up the prime market. Although shipments from Japan were scaled back 14.9 percent to 858,605 units, producers did not shut off the export spigot fast enough to prevent an unintended inventory buildup of about one year's supply — double normal levels. Sales of motorcycles in the 450-749 cubic centimeter displacement category were particularly hard hit, while sales of big-ticket heavyweight models fared only slightly better. In fact, the only segments of the market to show any signs of life were the under-125 cc and 125-349 cc displacement categories, presumably because of increased purchases of all-terrain vehicles. Given this market structure, the value of motorcycle imports from Japan declined by a wider margin than deliveries, falling 17.6 percent to under $1.1 billion.

Intermediate Goods - The bottom dropped out of the U.S. steel market last year as steel usage tumbled to its lowest level since 1962. Shipments by domestic mills were held down to a volume not seen since 1949, while imports from Japan hit a 20-year low. The deepening slump in the American automotive industry — the major market for steel mill products -- forced both U.S. producers and importers and distributors of Japanese steel to pare back already-reduced shipments of galvanized and other sheet products, as did additional cutbacks in the output of contractors' products, appliances and electrical equipment. Demand for plate slackened along with the fourth back-to-back decline in residential construction and another drop in the production of construction equipment and other types of industrial machinery. The slow pace of construction activity also cut requirements for wire rods, while the market for tinplate shrank again as steel cans continued to lose ground to aluminum and plastic.

Although weak demand in these markets certainly put a lid on imports of steel mill products from Japan last year, the development that really sliced deliveries to their lowest level in recent memory was the downturn in oil and gas drilling and transmission-line construction — the primary U.S. steel markets for Japanese mills. Booming demand for oil-country tubular products and large diameter line pipe, coupled with capacity constraints in the domestic steel industry, had given Japanese steel makers a major sales opportunity two years ago, but softening demand in 1982 just as quickly limited this export outlet. Moreover, a slowdown in nonresidential construction, one of the few other healthy market niches in 1981, trimmed usage of large structural shapes. The bottom line, therefore, for U.S. imports of Japanese-made steel was a 16.6-percent contraction in deliveries to under 5.2 million tons, which translated into a 5.6-percent drop in the value of purchases to $3.6 billion.

Import Prospects for 1983

The reviving U.S. economy should pull in more imports from Japan this year, but the expansion will be limited. Purchases of automotive products are expected to mark time again since car shipments remain capped and competition in the pickup truck market shows no signs of easing. Inventory adjustments will scale back imports of both motorcycles and machine tools as distributors liquidate their large U.S. stockpiles. Moreover, with importers of video cassette recorders trying to get a better handle on inventories in order to firm retail prices, slower or even negative growth is forecast for this product as well. Steel shipments could turn up somewhat now that users are shifting from destocking to limited inventory accumulation, but restraint will continue to be the watchword for Japan's steel exporters. In fact, semiconductors and, to a lesser extent, copiers are the only major product lines where import growth is projected to be strong in 1983.

For further information, contact Susan MacKnight.

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U.S. Imports from Japan, by Commodity, 1981 and 1982

(in millions of dollars* and indicated quantity units)

Commodity	Quantity		Value		Percent Change 1981/82	Japan's Share of U.S. Imports 1982
	1981	1982	1981	1982		
Total Imports			$37,612.1	$37,743.7	0.3%	15.5%
Automotive Products			12,950.0	12,889.8	-0.5	38.8
Passenger Cars	1,876,459 no	1,712,725 no	9,323.6	9,169.2	-1.7	46.4
Assembled Trucks	449,651 no	363,902 no	1,811.6	1,512.0	-16.5	37.0
Automotive Parts, Accessories and Engines			1,437.3	1,481.5	3.1	19.1
Body Stampings			67.6	69.5	2.8	51.8
Brakes and Parts			25.3	25.5	0.8	9.4
Transmissions			44.3	81.8	84.7	15.2
Engines and Parts			288.0	274.5	-4.7	15.7
Starting and Ignition Equipment			77.7	72.5	-6.7	33.6
Electric Lighting Equipment			27.5	29.3	6.5	49.0
Radios	911,259 no	813,643 no	36.7	36.7	0.0	21.6
Snowmobiles	17,529 no	24,640 no	23.7	33.1	39.7	63.4
Golf Carts, Mopeds and Similar Vehicles	243,434 no	426,798 no	333.4	672.7	101.8	96.8
Capital Goods			8,589.1	9,529.7	11.0	27.0
Nonelectric Machinery			5,579.6	6,223.4	11.5	29.4
Business Machines			1,780.1	2,427.5	36.4	39.4
Calculators	12,666,194 no	13,567,450 no	208.2	185.7	-10.8	68.5
Cash Registers (excl. point-of-sale units)	307,646 no	289,006 no	87.8	85.4	-2.7	95.1
Photocopiers and Parts	424,482 no	396,265 no	659.4	634.5	-3.8	90.9
Data-Processing Equipment and Parts			181.1	393.1	117.1	39.8
Parts for Data-Processing Equipment			206.6	435.1	110.6	33.0
Office Typewriters	104,953 no	184,046 no	30.3	55.5	83.2	24.0
Machine Tools and Parts			750.6	639.8	-14.8	40.2
Numerically Controlled Lathes	3,268 no	2,439 no	263.0	196.6	-25.2	82.4
Machining Centers	2,008 no	1,793 no	189.6	178.8	-5.7	89.6
Casting Machines Used in Metallurgy and Foundries and Parts			3.9	33.4	756.4	39.0
Farm Tractors	43,344 no	40,841 no	152.0	142.9	-6.0	37.1
Under 40 Horsepower	40,978 no	37,534 no	137.6	121.5	-11.7	94.3
Hydraulic Excavators and Other Excavating Machinery and Parts			144.9	104.2	-28.1	15.9
Front-End Loaders	1,042 no	1,027 no	44.2	36.0	-18.6	34.0
Forklifts and Other Self-Propelled Work Trucks and Parts	15,055 no	9,900 no	126.4	82.0	-35.1	53.8
Conveyors, Jacks and Other Materials Handling Equipment and Parts			96.5	140.6	45.7	23.7
Textile Machinery and Parts			139.0	108.7	-21.8	15.6
Commercial Sewing Machines	82,789 no	86,049 no	36.7	35.8	-2.5	58.0
Weaving Machines	1,633 no	1,235 no	38.1	15.0	-60.6	7.7
Printing Equipment and Parts			65.2	56.2	-13.8	14.8
Roll-Fed Offset Printing Presses	51 no	60 no	33.0	35.9	8.8	61.6
Machinery and Parts for Making Plastics and Rubber			28.1	21.0	-25.3	11.8
Industrial Equipment for Treating Materials by Temperature Change and Parts			74.8	122.9	64.3	35.3
Airconditioning Machinery and Parts			46.3	46.7	0.9	50.4
Pumps (except for motor vehicles) and Parts			109.9	93.3	-15.1	19.5
Compressors and Parts			109.1	102.6	-6.0	38.1
Refrigeration and Airconditioning Compressors			86.0	79.9	-7.1	58.5

Commodity	Quantity		Value		Percent Change	Japan's Share of U.S. Imports
	1981	1982	1981	1982	1981/82	1982
Fans and Blowers (except for motor vehicles) and Parts			$ 32.5	$ 26.8	-17.5%	7.9%
Power Hand Tools			83.1	104.4	25.6	48.7
Electric Hand Tools			42.0	49.8	18.6	54.1
Tools for Hand or Machine Use			79.5	84.7	6.5	18.0
Bearings and Parts			195.3	183.7	-5.9	39.7
Radial Ball Bearings			100.8	84.7	-16.0	45.3
Tapered Roller Bearings			43.4	50.5	16.4	62.0
Taps, Cocks, Valves and Similar Devices and Parts			115.9	120.6	4.1	19.8
Speed Changers and Other Transmission Equipment			47.3	41.5	-12.3	19.5
Small Stationary Diesel Engines and Parts			94.7	78.7	-16.9	22.3
Small Stationary Gas Engines and Parts			56.6	81.8	44.5	53.8
Steam Turbines and Parts			21.5	27.3	27.0	30.4
Film Processing and Printing Equipment			39.5	64.4	63.0	72.7
Electromedical Apparatus and Parts			33.9	34.1	0.6	26.0
X-Ray Apparatus and Parts			25.1	30.5	21.5	8.6
Medical, Dental and Veterinary Instruments and Parts			76.0	83.7	10.1	32.6
Astronomical Instruments and Parts			60.0	61.1	1.8	78.1
Microscopes and Parts			37.3	33.1	-11.3	40.8
Nonelectric Measuring, Checking, Analyzing and Controlling Instruments and Parts			73.9	63.8	-13.7	19.8
Electric Measuring, Checking, Analyzing and Controlling Instruments and Parts			122.7	137.5	12.1	17.8
Instruments and Apparatus to Measure or Check Electrical Quantities			37.9	45.2	19.3	34.8
Magnetic Tape			226.8	275.1	21.3	77.5
Blank Video Cassettes	16,032,415 no	17,723,347 no	116.1	126.4	8.9	96.6
Blank Audio Cassettes	48,342,146 no	60,158,868 no	54.3	64.0	17.9	61.0
Coin or Disc-Operated Game Machines			24.5	122.9	401.6	87.7
Electric Machinery			2,822.9	3,041.9	7.8	28.8
Semiconductors			359.6	545.2	51.6	13.5
Discrete Devices			71.6	98.8	38.0	18.8
Transistor Parts			14.0	34.5	146.4	71.7
Integrated Circuits			288.1	446.4	54.9	12.7
Digital Metal-Oxide-on-Silicon Chips	65,071,988 no	116,565,001 no	191.3	329.0	72.0	15.6
Digital Bipolar Chips			60.0	70.9	18.2	8.3
Chips, Dice and Wafers			30.5	46.6	52.8	24.6
Printed Circuit Boards	10,289,430 no	14,773,731 no	45.9	64.8	41.2	29.5
Capacitors			100.7	102.7	2.0	35.3
Fixed Aluminum Electrolytic Capacitors	570,618,839 no	628,223,140 no	50.5	54.1	7.1	84.2
Electronic Tubes and Parts (excl. television picture tubes)			39.2	39.1	-0.3	28.6
Microphones, Loudspeakers and Amplifiers and Parts			308.9	250.1	-19.0	52.0
Loudspeakers	25,655,504 no	23,289,520 no	148.6	120.4	-19.0	51.3
Audiofrequency Amplifiers	1,941,473 no	1,651,348 no	101.3	79.6	-21.4	53.8
Television Cameras and Parts	417,013 no	468,792 no	230.2	252.3	9.6	94.4
Radio Transceivers (excl. citizens' band)	269,671 no	329,200 no	49.7	48.8	-1.8	47.5
Radar and Radio Navigational Aids and Parts			46.0	31.3	-32.0	24.8
Radiotelephonic Apparatus and Parts			60.9	116.2	90.8	24.6
Telephone Apparatus and Parts			199.2	192.5	-3.4	41.3
Teleprinting and Teletypewriting Machines and Parts			51.9	83.0	59.9	74.2
Switchgear			237.0	257.9	8.8	26.6
Relays			34.6	40.3	16.5	37.4

Commodity	Quantity 1981	Quantity 1982	Value 1981	Value 1982	Percent Change 1981/82	Japan's Share of U.S. Imports 1982
Rectifiers and Rectifying Equipment			$ 37.0	$ 47.3	27.8%	23.0%
Resistors			49.6	47.6	-4.0	25.6
Insulated Electrical Conductors with Fittings			27.3	25.9	-5.1	12.8
Electric Motors Under 1/40 Horsepower			42.4	54.4	28.3	52.4
Electric Motors Over 1 Horsepower			38.0	29.2	-23.2	34.5
Welding Equipment and Parts			4.7	38.0	708.5	39.7
Batteries and Parts (excl. lead-acid batteries)			58.8	73.5	25.0	45.6
Permanent Magnets and Magnetic Workholders			50.4	42.1	-16.5	59.5
Electric Signalling Apparatus and Parts			48.8	60.3	23.6	26.6
Transport Equipment			186.6	264.3	41.6	7.3
Civilian Aircraft			38.6	40.1	3.9	3.5
Aircraft Parts			103.4	143.1	38.4	6.2
Parts for Rolling Stock			38.8	47.1	21.4	41.1
Consumer Goods			8,339.5	7,842.4	-6.0	19.8
Color Video Cassette Recorders	1,999,475 no	2,479,825 no	1,007.4	1,048.8	4.1	99.4
Video Tape Players	113,320 no	75,495 no	47.6	33.8	-29.0	98.2
Assembled Color Television Receivers	649,395 no	716,125 no	218.3	238.2	9.1	48.5
Assembled Black-and-White Television Receivers	443,799 no	361,146 no	40.8	31.2	-23.5	11.2
TV Combinations			36.6	39.3	7.4	46.7
Unassembled Television Receivers and Incomplete Subassemblies			187.1	162.0	-13.4	24.5
Television Picture Tubes and Parts			103.9	71.4	-31.3	68.3
Parts for Television Receivers			423.4	473.2	11.8	39.2
AM and AM/FM Radio Receivers (excl. for motor vehicles)	3,813,201 no	4,384,361 no	233.9	218.7	-6.5	40.3
Radio Receivers (excl. entertainment broadcast band)			24.8	32.8	32.3	66.0
Radio-Tape Recorder Combinations	3,641,039 no	3,337,130 no	293.2	246.2	-16.0	45.4
Radio-Tape Player Combinations	5,975,107 no	6,041,192 no	409.3	378.5	-7.5	71.4
Radio-Phonograph-Tape Recorder Combinations	589,812 no	529,551 no	76.6	54.7	-28.6	44.5
Audio Tape Players	3,021,971 no	4,229,702 no	121.5	141.2	16.2	75.7
Audio Tape Recorders and Dictation Machines and Parts	5,906,022 no	5,255,669 no	476.3	411.1	-13.7	63.9
Record Players, Phonographs, Record Changers and Turntables and Parts	2,696,830 no	2,313,495 no	156.7	131.4	-16.1	77.4
Electric Appliances			375.6	286.9	-23.6	28.9
Microwave Ovens	697,117 no	536,653 no	154.7	109.6	-29.2	55.6
Electric Stoves and Ranges and Parts			106.0	89.0	-16.0	89.7
Kerosene Heaters	2,907,889 no	7,079,803 no	151.9	391.6	157.8	93.8
Home Sewing Machines	215,528 no	166,060 no	28.9	22.2	-23.2	16.8
Portable Typewriters	1,153,102 no	712,615 no	101.2	74.5	-26.4	57.2
Earthen and China Tableware and Household Articles			332.0	279.8	-15.7	41.4
Nonbone China Tableware	133,855,596 pc	125,379,444 pc	139.1	110.9	-20.3	39.5
Earthen Tableware	212,754,516 pc	215,781,600 pc	137.1	120.8	-11.9	62.6
Table Flatware and Kitchen Knives			91.5	88.4	-3.4	46.1
Metal Housewares			31.9	43.0	34.8	13.2
Pipe Wrenches and Spanners and Parts			48.5	38.0	-21.7	28.7
Variable-Focus Still Cameras	3,730,459 no	3,359,494 no	428.1	386.4	-9.7	82.4
Mounted Photographic Lenses	5,243,822 no	5,851,721 no	174.0	153.5	-11.8	80.4
Flash Apparatus			60.8	53.4	-12.2	65.6
Still Photographic Color Film (110 size and 35 mm)	28,904,582 no	32,654,532 no	27.5	34.3	24.7	70.9
Optical Elements			78.6	64.4	-18.1	41.9
Glasses and Frames			31.7	32.3	1.9	11.2

Commodity	Quantity 1981	Quantity 1982	Value 1981	Value 1982	Percent Change 1981/82	Japan's Share of U.S. Imports 1982
Clocks and Watches and Parts			$ 410.7	$ 298.7	-27.3%	31.0%
Quartz, Liquid-Crystal-Display and Light-Emitting-Diode Watches	8,062,688 no	9,565,721 no	209.5	187.7	-10.4	38.4
Electric Clock Movements (incl. battery operated)	12,658,141 no	8,905,617 no	65.1	30.7	-52.8	48.2
Toys and Sporting Goods			324.4	368.0	13.4	13.5
Video Games and Parts			129.0	157.9	22.4	19.3
Firearms and Parts			43.5	44.5	2.3	30.3
Fishing Equipment			50.2	54.5	8.6	34.7
Toys			40.6	49.0	20.7	7.3
Musical Instruments and Parts			122.2	144.4	18.2	49.9
Pianos and Parts	24,687 no	28,500 no	36.7	46.0	25.3	65.5
Electronic Musical Instruments			31.7	52.5	65.6	81.8
Motorcycles and Parts (excl. engines)	1,008,741 no	858,605 no	1,296.7	1,068.7	-17.6	95.6
Motorcycles with Piston Displacement Over 290 cc	619,824 no	463,134 no	991.7	767.0	-22.7	97.3
Parts (excl. engines)			94.9	83.9	-11.6	85.1
Adult Bicycles and Parts			171.6	86.4	-49.7	49.6
Bicycles	622,811 no	296,656 no	77.4	34.5	-55.4	38.8
Parts			94.3	51.9	-45.0	60.9
Clothing and Accessories			277.5	255.9	-7.8	3.1
Women's and Girls' Cotton Jackets	2,783,352 no	2,661,984 no	42.9	38.1	-11.2	19.3
Women's Cotton Slacks	7,004,568 no	6,167,388 no	45.6	42.9	-5.9	11.4
Men's and Boys' Cotton Knit Shirts	7,191,156 no	5,461,776 no	25.1	19.2	-23.5	7.8
Women's and Girls' Cotton and Manmade-Fiber Knit Shirts	10,805,532 no	7,626,900 no	26.1	19.9	-23.8	4.7
Pearls (not set or strung)			95.7	85.4	-10.8	87.9
Jewelry			42.8	32.9	-23.1	3.1
Printed Material			86.9	83.9	-3.5	12.6
Pens and Pencils			51.3	51.7	0.8	56.1
Pharmaceuticals			113.5	104.0	-8.4	10.7
Bulk Vitamins			54.2	40.8	-24.7	34.0
Benzenoid Drugs			33.3	33.7	1.2	8.1
Intermediate Goods			7,178.5	6,794.9	-5.3	6.1
Steel Mill Products	6,220,083 stn	5,185,138 stn	3,800.5	3,585.9	-5.6	39.0
Wire Rods and Bars	1,139,105 stn	839,610 stn	501.6	403.2	-19.6	27.4
Unalloyed Wire Rods	173,860 stn	141,930 stn	70.2	55.2	-21.4	20.6
Semifinished Angles, Shapes and Sections Over 3"	655,771 stn	448,776 stn	237.3	181.0	-23.7	33.2
Plate and Sheets	2,033,051 stn	1,708,699 stn	900.5	762.8	-15.3	30.0
Tin Plate and Tin-Coated Sheets	173,554 stn	112,132 stn	109.5	70.8	-35.3	51.6
Coated Plates and Sheets	761,662 stn	694,511 stn	359.1	318.3	-11.4	56.9
Unalloyed Non-Pickled Plates and Pickled Sheets	333,851 stn	246,305 stn	111.9	85.7	-23.4	13.3
Unalloyed Hot-Rolled Sheets	207,865 stn	182,927 stn	68.2	60.0	-12.0	22.2
Unalloyed Cold-Rolled Sheets	383,264 stn	296,452 stn	152.6	123.9	-18.8	20.6
Strip	25,857 stn	29,577 stn	27.4	31.7	15.7	27.5
Rails	62,310 stn	122,363 stn	29.6	56.7	91.6	42.0
Wire	106,916 stn	87,088 stn	81.1	64.2	-20.8	26.5
Unalloyed and Uncoated Wire	81,296 stn	65,628 stn	49.7	38.4	-22.7	41.5
Tubes, Pipes and Fittings	2,879,221 stn	2,492,171 stn	2,256.0	2,263.4	0.3	50.7
Cast Fittings, Forged Steel Flanges and Butt-Weld Fittings	56,507 stn	45,334 stn	102.7	81.2	-20.9	44.9
Unalloyed Welded or Seamless API Line Pipe	n.a.	583,398 stn	n.a.	320.2	n.a.	56.0
Unalloyed Welded or Seamless Pipes and Tubes, Not Threaded	n.a.	397,987 stn	n.a.	215.8	n.a.	29.3
Unalloyed Welded or Seamless Pipes and Tubes, Threaded	n.a.	552,191 stn	n.a.	595.6	n.a.	75.4

Commodity	Quantity		Value		Percent Change	Japan's Share of U.S. Imports
	1981	1982	1981	1982	1981/82	1982
Unalloyed Pipes and Tubes of Circular Cross Section	n.a.	247,005 stn	$ n.a.	$ 284.8	n.a.%	62.4%
Alloyed Pipes and Tubes	193,360 stn	214,743 stn	290.7	375.4	29.1	46.6
Nonferrous Metals			317.6	314.6	-0.9	5.9
Copper and Copper Alloys			103.4	78.7	-23.9	8.0
Pipes and Tubes			43.1	42.4	-1.6	41.9
Aluminum and Aluminum Alloys			47.1	177.9	277.7	13.3
Wrought Aluminum Sheets and Strip, Not Clad	20,929 stn	87,034 stn	41.8	170.6	308.1	47.6
Titanium	6,569 stn	1,754 stn	98.7	25.1	-74.6	61.8
Unwrought Cobalt	757 stn	510 stn	27.2	8.7	-68.0	6.4
Refined Gold Bullion	117,289 toz	46,445 toz	56.6	18.3	-67.7	1.1
Steel Pillars, Girders and Similar Structural Units			16.4	35.0	113.4	46.0
Wire Products (incl. insulated electric wire)			106.1	92.4	-12.9	24.3
Nails and Industrial Fasteners			315.4	295.1	-6.4	42.0
Steel Bolts and Bolts with Nuts	41,585 stn	44,620 stn	35.8	38.3	7.0	47.9
Steel Nuts	51,129 stn	51,420 stn	73.9	69.2	-6.4	56.1
Steel Screws	131,940 stn	125,805 stn	138.6	135.6	-2.2	67.1
Steel Chains and Parts			49.4	43.5	-11.9	46.7
Industrial Chemicals (excl. fertilizers and pharmaceuticals)			712.1	672.5	-5.6	16.5
Organic Chemicals Found Naturally in Coal Tars			90.8	40.1	-55.8	9.2
Benzene	42,732,078 gal	21,643,523 gal	69.8	23.8	-65.9	12.7
Other Cyclic Organic Chemical Products			109.9	101.6	-7.6	22.1
Amino Acids and Other Nitrogenous Compounds			102.2	96.1	-6.0	20.1
Iodine	2,481 stn	1,966 stn	29.4	22.8	-22.4	82.2
Synthetic Organic Dyestuffs			44.2	54.1	22.4	27.5
Plastic Materials and Resins			197.7	179.2	-9.4	26.3
Flexible Film, Strips and Sheets of Plastic Materials			95.4	87.2	-8.6	24.7
Pesticides			46.3	24.6	-46.9	9.3
Tires and Tubes			377.3	376.2	-0.3	30.4
Car Tires	3,408,556 no	2,920,263 no	98.6	86.3	-12.5	15.4
Truck and Bus Tires	1,470,589 no	1,656,662 no	202.3	223.7	10.6	50.1
Plywood and Veneers	140,702 msf	96,442 msf	48.4	34.3	-29.1	6.8
Paper and Paper Products			53.0	47.4	-10.6	5.0
Yarns, Fabrics and Made-up Textile Articles			512.8	528.1	3.0	18.8
Manmade-Fiber Yarn	7,425 stn	7,589 stn	31.5	33.4	6.0	22.9
Cotton Fabric	31,628,859 syd	41,153,793 syd	47.0	54.7	16.4	11.3
Manmade-Fiber Fabric	203,715,410 syd	221,062,584 syd	270.1	260.9	-3.4	48.9
Bleached or Colored Fabrics of Continuous Polyester Fibers	146,466,562 syd	165,936,008 syd	192.5	190.3	-1.1	67.3
Wadding, Batting and Nonwoven Fabrics	741 stn	894 stn	40.8	41.3	1.2	68.8
Ceramic Tile	52,423,145 sft	45,498,973 sft	46.4	33.7	-27.4	23.3
Electrodes for Electric Furnaces or Electrolytic Use	21,370 stn	18,462 stn	42.1	39.4	-6.4	77.0
Photographic Film and Paper (excl. film packaged for retail sale)			203.8	224.3	10.1	43.4
Medical X-Ray Film	103,182,322 sft	165,763,705 sft	69.2	62.3	-10.0	43.3
Silver Halide Color Photographic Paper	347,416,883 sft	379,742,347 sft	79.7	81.3	2.0	62.0

Commodity	Quantity 1981	Quantity 1982	Value 1981	Value 1982	Percent Change 1981/82	Japan's Share of U.S. Imports 1982
Food and Feed			$ 295.7	$ 307.0	3.8%	1.8%
Fish and Fish Products			185.7	192.0	3.4	6.1
Miscellaneous Imports			259.4	380.0	46.5	5.8

Key to quantity abbreviations:

gal = gallon
msf = thousand square feet
no = number
pc = pieces
sft = square feet
stn = short tons
syd = square yards
toz = troy ounces

*Imports are valued on a f.a.s basis in 1981 and on a Customs basis in 1982. The difference between the two valuation bases is negligible

Source: U.S. Department of Commerce, U.S. General Imports: Schedule A Commodity by Country (FT 135), December 1981 and December 1982

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Japan at Williamsburg: Political Issues

Prime Minister Yasuhiro Nakasone approached the Williamsburg summit as the leader of a major economic power with a significant political role in the Western alliance. He assured the heads of the other six leading industrial nations of his support for a unified position on economic and security issues and in his keynote speech endorsed earlier commitments he had made in Washington. Japan's trade problems with the United States or Europe were not mentioned; on the contrary, the joint communique declared a mutual determination to preserve free-trade principles. U.S. trade officials at the White House meeting prior to the summit praised Japan's continuing efforts to open its market.

White House Firms Up Trade Reorganization Plan

The White House last week announced its plan for creating a new Department of International Trade and Industry that would ostensibly provide a "leaner, more efficient and better coordinated approach to international trade." This announcement came after weeks of refining its initial trade reorganization plan, which was widely criticized on Capitol Hill and throughout the Washington trade community. Congressional staff maintain that chances for enactment of the new department are still dubious, due in part to the heavy trade legislative agenda. However, this latest alternative appears to have at least struck a more positive note with the U.S. Trade Representative's Office (USTR). USTR William Brock has officially supported the new plan, stating that what is now being proposed is a "very different department, a very new department," that retains all of the functions of the USTR as "a clear policy arm of the secretary in the secretary's office."

Since the president first officially advanced this plan for reorganizing the trade policy structure on April 25, USTR staff, through leaks to the press and off-the-record remarks, made no bones about the fact that they opposed this diminution of their role in trade policymaking. The Department of International Trade and Industry first envisaged by the White House would have merely folded USTR into a pared-down Commerce Department (see organizational scheme in JEI Report No. 20A, May 27, 1983). At that time, the administration was also vague concerning the status of the National Oceanic and Atmospheric Administration (NOAA), the Economic Development Administration (EDA), and the Minority Business Development Agency (MSBDA) — all currently under Commerce's aegis. Under the new plan -- worked out in consultation with Senator William Roth (R, Del.), the chief congressional proponent of consolidating the trade bureaucracy — USTR's leadership in policymaking would be retained. Trade specialists in the trade representative's office who develop and negotiate U.S. trade policy would be transfered to the Office of the Secretary of Trade, with line functions the responsibility of the International Trade Administration. NOAA would become an independent agency; the National Bureau of Standards would be folded into the National Science Foundation; the MSBDA would be transfered to the Small Business Administration; and the EDA would be moved to the Department of Housing and Urban Development. The Department of Commerce, per se, would be abolished. Only about 7,500 of its current 35,000 employees would move to the new Department of Trade.

This dramatically consolidated trade bureaucracy with USTR as the lead policymaking unit is evidently much closer to what Senator Roth envisages in his reorganization proposal, S. 121. Having previously criticized Commerce as a "grab-bag of unrelated functions" ill-suited to effectively developing and negotiating U.S. trade policy, the Delaware Republican maintained that this latest plan outlines a department that will be "able to work aggressively toward expanded trade opportunities for the United States." "With the creation of the Department of International Trade and Industry," he continued, "trade will no longer be the forgotten stepchild of our government." Senator Roth, the chairman of the Government Affairs Committee which has jurisdiction over bureaucratic reorganization, said his committee would resume consideration of the Department of Trade later this month.

Barbara Wanner

MITI Releases Plans for Depressed Industries

Under the new depressed industries law in Japan, a number of industries suffering from long-term declines in demand are to work out plans for reduction of productive capacity in conjunction with the relevant ministries (see JEI Report No. 19B, May 20, 1983). The Ministry of International Trade and Industry (MITI) has announced preliminary plans for some industries that it has now submitted to its Industrial Structure Council. Included in this first set of plans are the following proposed reductions in capacity:

Ethylene	36 percent by the end of FY 1984
Low-Density Polyethylene	38 percent by the end of FY 1984
High-Density Polyetheylene	27 percent by the end of FY 1984
Polyvinyl Chloride Resin	24 percent by the end of FY 1985
Chemical Fertilizer	14 percent by June 1987
Fused Phosphate	32 percent by June 1987
Phosphoric Acid (wet process)	17 percent by June 1986
Urea	36 percent by June 1986
Ammonia	20 percent by June 1986

By law, this advisory council must review the plans and send its recommendations to MITI, which will then make a final decision. In practice, the plans submitted to the council often have tacit approval and are not altered.

As is evident from this list, there is a wide variance in both the capacity cuts and the length of time envisioned to carry them out. Under the first depressed industries law passed in 1978, the experience of those industries that pressed for relatively minor cuts or slow implementation was that market forces brought about a reduction in output and capacity much faster than the plans. This could well happen again, although the recent reduction in petroleum prices could improve the prospects for some of those industries dependent on petroleum feedstocks.

In addition to the capacity cutbacks, producers of polyethylene are to join into four groups for sales purposes; fused phosphate producers are to group together in a joint production and investment organization; while ammonia producers are to be encouraged to diversify into other products. If the past is any guide, these aspects of the plans are much more uncertain than the capacity cutbacks since firms are fiercely protective of their independent existence.

This is the first in the series of announcements that will continue throughout the summer and fall as other industries announce plans and final versions are approved. Because the cutback in capacity in domestic Japanese industries implies both a response to sagging domestic demand and a tilt to imports, the U.S. government continues to watch developments under this law very closely.

Edward Lincoln

Defense Department Pushing Supercomputer Project

The limited world market for supercomputers — extremently fast and powerful systems designed for scientific and engineering applications — is currently dominated by two American companies, Cray Research Inc. and Control Data Corp. (CDC). Over the past year, however, Japan's three top computer makers have moved into this technically critical field with a new class of "number crunchers." Fujitsu, Ltd. hit the market last July, announcing the FACOM VP-200, which it rated at 500 million floating-point operations or calculations a second (flops), or five times faster than the seven-year-old Cray-1 and 2.5 times faster than CDC's Cyber-205, first shipped in 1981. Only two months later, rival Hitachi, Ltd. upped the ante with the S-810/20, said to perform 630 million calculations per second, but its claim to a world record was broken this past April when NEC Corp. unveiled the 1.3-billion-flops SX-2.

These announcements alone were enough to arouse concern about continued U.S. supremacy in supercomputers. Far more troubling to American computer scientists is a government-backed project now underway in Japan to develop a computer by 1990 that could perform a maximum of 10 billion calculations a second as well as provide large-

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JEI

REPORT

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SINO-JAPANESE RELATIONS: ECONOMIC ADJUSTMENT FOLLOWS POLITICAL CHANGES

Summary

In 1980 for the first time, the two-way total of Sino-Japanese trade surpassed $10 billion. The trend continued into 1981 but halted abruptly last year when the total plunged to $8.8 billion, a decline of almost 15 percent. Since a long-term trade agreement was signed in 1978, Japan's reactions to China have ranged from euphoria to disillusionment, but have not affected the decision to assist in the modernization and industrialization of that country. This paper will analyze the overall economic relationship and problems that face the two nations. Further background is provided in JEI Report No. 27A, July 15, 1982.

Background

The bilateral economic relationship is hostage to China's political climate. With the emergence of Deng Xiaoping, the architect of modernization and industrialization, optimism prevailed. But when overly ambitious economic plans led to a change in policy, Japanese firms incurred serious losses from the cancellation of several large-scale projects. While the current political atmosphere in China is calm, press reports in the United States suggest that the tide might be changing.

The most politicized issue last year concerned the revision of some Japanese high school textbooks in which an attempt was made to soften the phrase describing the Japanese "invasion" of China to the bland "advancement". The Chinese formally protested this re-writing of history — a sentiment shared throughout Asia and not without support at home. Although conservatives argued that the country's educational policy should not be subject to political pressures from abroad, and particularly from a communist state, the press was highly critical of this attempt to amend history and the issue was particularly embarrassing for the Japanese government, which was planning to commemorate the tenth anniversary of normalization of relations with China.

Then-premier Zenko Suzuki visited Peking in September and told the Chinese that Japan would not incorporate the language change and would not tolerate an upsurge of militarism. Mr. Suzuki asked for, and received, a promise that the Chinese would apply the rules of international commerce to foreign investment, and in return agreed to cooperate on oil exploration projects in the Bohai Bay. Possibilities seemed to be widening, and Shintaro Abe of the Ministry of International Trade and Industry (MITI) received assurances from Chinese officials that they would consider a resumption of construction of the Baoshan steel mill and some petrochemical plants — a piece of good news for Japan.

On September 23, a Japanese business delegation signed a second long-term trade agreement with China. The original 1978 agreement committed China to increase oil exports from 7 million metric tons to 15 million metric tons by 1982. Coal exports were to rise to 2 million metric tons of coking coal and 15-17 million metric tons of steam coal in the same period. These projections proved overly optimistic, and problems relating to aging oil fields, poor infrastructure and rising domestic consumption lowered 1982 shipments to 9.1 million metric tons of oil and 1.3 and 1.5 million metric tons of coking and steam coal, respectively. The new agreement targeted between 8 and 8.6 million tons of oil and 7 to 8 million tons of coal in 1983-85.[1]

In December, cabinet-level economic meetings in Tokyo moved the two nations back to normal communications and both sides resumed talks on potential economic cooperation. Whether Peking's increasing denunciation of the United States will result in a tilt toward Japan for foreign investment and technical assistance is unclear. It is true that Japan does not have any burning political issues with China, in contrast with the United States, which is in conflict with Peking over arms sales to Taiwan and the recent question of political asylum. Japan's relationship with Taiwan -- although strictly unofficial -- is not an issue. Japanese firms with investments in Taiwan are moving into the Chinese market, but their ideological credentials are no longer a prerequisite for admission. At the same time, Japanese business executives do not underestimate the barriers of a communist state, and their understanding has become more sophisticated, more factual and more pragmatic.

Economic Conditions in China

In 1980, China's total population was estimated at 976 million, with a per-capita income of $290 — one of the poorest of the developing countries in the region.[2] In early 1978, China's modernization began with an ambitious ten-year plan, concentrating primarily in heavy industries and imports of western technology. Almost immediately, a variety of adjustments were necessary. Steel industry development was cut back, and agriculture, light industry and infrastructure investments were increased. Imports of foreign technology went forward, but many projects that involved foreign interests were cancelled. The government's economic management skills proved unwieldy, and with a trade deficit, inflation, lower economic growth, a deteriorating agricultural sector and increasing unemployment, the government imposed an austere budget and drastically cut capital investment.

The new five-year plan (1981-1985) targets economic growth at 4 percent and calls for an expansion of trade and foreign technology programs. A rise in loans, foreign

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investment and joint ventures will be encouraged. Infrastructure improvements including railways, port construction, and education and social welfare programs will be upgraded. While it will be difficult to achieve 4-percent growth in the agricultural sector, the government anticipates increased production in food and other products. A halt to population growth is urgent if the population is to be kept at under 1.06 billion by 1985 in accord with the government's proposals.

In the 1983 budget, the state will be spending 14.5 percent on defense while expenditures for education, science, culture and public health increased by 11 percent to 16 percent of the total.

There have been some reforms to permit small-scale private ownership and incentive bonuses which have encouraged independent economic decisions and greater efficiency, but the new methods have also produced bureaucratic confusion and an uneven distribution of wealth. Granting some autonomy to provincial governments, for instance, stimulated their sense of responsibility, but at the same time created overlapping investments and hampered coordination. The government is also constrained by the lack of statistical data. During the Cultural Revolution, the national network of statistical offices was destroyed and the present staff is half the size it was in 1965.[3]

Moreover, according to informed sources, manipulation of the statistical data at both the local and national levels is rampant. A juggling of the number of births, total production levels, and amount of cultivable land is characteristic. As each commune, factory and provincial government is pressed to show that it has achieved the goals set by the central government, it is common practice to paper over certain failures in infrastructure investment, the number of employed workers, the size of inventory stocks and consumer price increases.

Trade

While Japanese exports to China last year fell by more than 30 percent to $3.5 billion and imports were flat at $5.4 billion, Japan is one of China's major trading partners. Japan's trade deficit with China last year was more than $1.8 billion. Efforts to increase infrastructure investments and meet rising demand for consumer goods strengthened China's imports of steel from Japan last year, accounting for 36 percent of total exports. But demand for machinery and transportation equipment dipped to less than half the level of the previous year as the government ended outlays for industrial plants. Import restrictions on goods considered luxuries, i.e. television sets, automobiles, radio-cassette recorders, electronic calculators and wrist watches, reduced shipments of these goods. Exports of ships jumped eight-fold, including several tankers. Fertilizer exports fell, as did sales of textiles and apparel, but deliveries of plastics and synthetic rubber increased significantly.

Roughly 60 percent of Japan's imports from China consists of mineral fuels, primarily oil. Even though Japan's overall crude oil imports dropped by nearly 7 percent last year in volume terms, imports of Chinese oil remained at the same level, slightly more than 9 million metric tons, and petroleum products thus account for 53 percent of total imports from China. This pattern of exports of industrial products and imports of oil is not likely to change in the near future.

Plant Exports

Large-scale plant construction based on Japanese technical expertise is highly sought after in the developing countries. This kind of project usually involves a variety of Japanese firms, including trading companies and financial institutions. After 1978, Japanese firms rushed to contract new plant exports with China and the ensuing cancellations and postponements reportedly cost businesses a staggering loss. The most publicized case involved the Baoshan steel mill near Shanghai. The project was criticized because it was seen as too sophisticated for a developing country and unlikely to contribute to the immediate demand for a higher standard of living — needs which would have been better met by investments in light industry and agriculture. Mainichi Shimbun reported last September, however, that Chinese trade officials were considering resuming construction, presumably referring to the Baoshan steel mill and two other petrochemical plants, although nothing specific has emerged.

According to China Newsletter,[4] 23 plant export contracts have been concluded. The number of contracts increased in 1982 over the previous year, but the value per contract declined. Asahi Glass Co. Ltd. signed an agreement with Shaanxi Color Picture-Tube Factory to produce 100,000 monochrome tubes a month. Mitsubishi Heavy Industries, Ltd. and Ishikawajima-Harima Heavy Industries Co., Ltd. are involved in equipment for coal mining and port construction. Shanghai Petrochemical Complex, Murata Manufacturing Co. and Toko Bussan Co., Ltd. agreed to build a plant with a capacity of 10,000 tons of polyester filament a year. And Lanzhou Chemical Industrial Co. signed an agreement with Toyo Engineering Corp. and Marubeni Corp. for a plant to produce 5,000 tons of polystyrene.

Investment Projects

Until 1978, China refused to borrow foreign capital. However, with the acceleration of industrialization, imports of foreign technology and foreign investment were permitted. In 1979, Chinese officials began negotiating a yen loan for eight projects to develop rail transportation, ports and hydroelectric power plants. Eventually, six projects were approved and a ¥50 billion ($200 million) loan was announced. Since then, all official yen loans have been invested in the same projects -- a total of ¥296 billion ($1.18 billion) at 3 percent annual interest with a 30-year payment period. The loans are a combination of capital credits and commodity loans.[5]

The Japan Export-Import Bank loans are categorized as private investment, but in fact, the bank is government chartered. From 1980 to 1982, the bank loaned ¥244 billion ($980 million) to China, mostly for coal mining projects. In order to provide official loans to China, Japan negotiated with the OECD in 1978 to include China on its list of developing countries so that loans would come under Official Development Aid (ODA). Despite pressure from Peking, Japan had to take into account assistance to other Asian nations. The $5.5-billion request from China would have exceeded the total amount of aid to all other Asian nations combined — politically, a risky situation for Japan. The final six projects to be implemented reflect national interests. Two projects, the Beijing-Qinhuangdao railway and Qunhuangdao port, both in the north, are directly connected with the expansion of coal transportation. The Yanzhou-Shijiusuo railway and port will also be used for coal exports. Japan obviously considered the export infrastructure weak. According to one analysis, another railway line that would run to Hong Kong was considered a problem because of the possibility that it might invite criticism about China's presence in the southern part of Asia, but it was finally accepted.[6]

Oil Exploration Projects

A Japanese-financed oil and gas drilling venture in the Bohai Bay was initiated in 1979 with the government underwriting 60 percent of the costs and the balance funded by private investors. Japan is responsible for offshore oil exploration and test drilling as well as construction of production facilities, at which point the Chinese will take over operations. The Japan National Oil Corp. will receive 42.5 percent of the oil. Plans call for joint development of the oil fields (Japan-49 percent; China - 51 percent) with primary funding by the Japan Export-Import Bank. The estimated time span is five to seven years for exploration, and another five years to develop the site. During the contract negotiations, the Japanese side insisted on international procurement policies based on price-competitiveness, quality and delivery — a demand opposed by the Chinese who sought to confine purchases to indigenous materials.

The first high-quality pilot well was drilled in six months, and two later discoveries in the following year also produced a high-quality oil, equivalent to Arabian Light. Industry analysts, however, say that commercialization of the project will require ¥1 trillion ($4 billion) in financing.[7] American and European oil companies have also been involved in oil exploration in China. International bids to drill in the Yellow Sea and the South China Sea were submitted last August, and while Peking authorities assured the Japanese that they would take into account the special relationship between the two countries, no commitment was made.

Assessment

China's political climate dictates its economic environment. Economic policy has always been fought on an ideological basis, with the pragmatists pushing for industrialization and commerce with industrially advanced nations, and the ideologues battling to preserve communist principles and exclude foreign influences. The postwar history of China has been characterized by this confrontation.

In 1978, policy temporarily permitted accessing foreign technology. But three years later a political shift banning contact with foreigners eliminated a number of heavy industrial projects. The latest five-year plan does not call for radical policy changes but attempts to raise the standard of living while continuing to develop at a slower pace.

Perhaps the more fundamental problem is China's decision-making process. It has been widely reported that policy decisions are a reflection of personal power rather than institutional planning. Past experience suggests that political and economic policies might shift overnight. Ideological differences, regional background and political clout tend to create factional struggles that undermine the effectiveness of policy implementation. Widespread unemployment explains the nepotism and inefficiency of the workforce. Another urgent problem is the social integration of the generation who served as Red Guards during the Cultural Revolution. Many of these militants were banned to border provinces, but there are sporadic reports of youths who attempt to return and are rejected by the authorities.

In spite of everything, the overall bilateral relationship will continue to expand. More Chinese are being sent to Japan for training in engineering, transportation and management. Official contacts take place on a regular basis, and private businesses are slowly entering the Chinese market. Nevertheless, Asian nations have traditionally feared China's power and Japan should be sensitive to their reaction to what appears to be excessive support for China's economic development.

Footnotes

[1] "Conference Communique on Japan-China Long-term Trade", September 1982.

[2] Ministry of International Trade and Industry, "White Paper on Economic Aid 1982" (Keizai Kyoryoku No Genjo To Mondaiten), p. 301.

[3] Yoichi Funahashi, "Neibu: A China Report" (Neibu: Aru Chugoku Hokoku), (Asahi Shimbunsha, 1983), pp. 266 - 269.

[4] Kazunori Mori, "Japan-China Trade in 1982 and the Outlook for 1983", (*China Newsletter*, March - April 1983), p. 5.

[5] MITI, *White Paper*, pp. 301 - 305.

[6] Kosaku Matsumoto, "External Elements of China's Economic Policy and Japan's Financial Assistance to China", (*China Newsletter*, January - February 1983), pp. 9 - 14.

[7] Ryo Inoue, "Analysis of Sino-Japanese Oil Development" (Nicchu Sekiyu Kaihatsu No Genjo To Tenbo), (*MITI Journal*, January 1982), pp. 108 - 112.

For further information, contact Fumiko Mori.

* * * * * *

Table 1: Japan's Major Trading Partners, 1978-82*

(in millions of dollars)

	1978		1979		1980		1981		1982	
	Value	Share	Value	Share	Value	Share	Value	Share	Value	Share
Exports										
Total	$97,543	100.0%	$103,032	100.0%	$129,807	100.0%	$152,030	100.0%	$138,831	100.0%
United States	24,915	25.5	26,403	25.6	31,367	24.2	38,609	25.4	36,330	26.2
Saudi Arabia	3,254	3.3	3,829	3.7	4,856	3.7	5,876	3.9	6,621	4.8
West Germany	3,654	3.7	4,266	4.1	5,756	4.4	5,968	3.9	5,018	3.6
Korea	6,003	6.2	6,247	6.1	5,368	4.1	5,658	3.7	4,881	3.5
United Kingdom	2,341	2.4	3,097	3.0	3,782	2.9	4,789	3.2	4,813	3.5
Hong Kong	3,088	3.2	3,379	3.3	4,761	3.7	5,311	3.5	4,718	3.4
Australia	2,692	2.8	2,607	2.5	3,389	2.6	4,779	3.1	4,581	3.3
Singapore	2,325	2.4	2,679	2.6	3,911	3.0	4,468	2.9	4,373	3.1
Indonesia	2,095	2.1	2,124	2.1	3,458	2.7	4,123	2.7	4,261	3.1
Taiwan	3,585	3.7	4,337	4.2	5,146	4.0	5,405	3.6	4,255	3.1
U.S.S.R.	2,502	2.6	2,462	2.4	2,778	2.1	3,259	2.1	3,899	2.8
China	3,049	3.1	3,699	3.6	5,078	3.9	5,096	3.4	3,511	2.5
Imports										
Total	79,343	100.0	110,672	100.0	140,528	100.0	143,290	100.0	131,931	100.0
United States	14,790	18.6	20,431	18.5	24,408	17.4	25,297	17.7	24,179	18.3
Saudi Arabia	8,450	10.6	12,134	11.0	19,538	13.9	21,483	15.0	20,528	15.6
Indonesia	5,247	6.6	8,794	7.9	13,167	9.4	13,305	9.3	12,005	9.1
United Arab Emirates	2,622	3.3	3,633	3.3	8,190	5.8	8,836	6.2	7,983	6.1
Australia	5,300	6.7	6,298	5.7	6,982	5.0	7,419	5.2	6,961	5.3
China	2,030	2.6	2,955	2.7	4,323	3.1	5,292	3.7	5,352	4.1

*Rankings based on 1982 trade flows.

Source: Japan Tariff Association, Summary Report: Trade of Japan

Table 2: Japan's Trade with China, 1980-82

(in thousands of dollars)

	1980	1981	1982
Exports			
Chemicals	$ 543,090	$ 523,150	$ 469,837
Metals and Metal Products	1,683,300	1,249,845	1,354,332
Steel	1,370,047	967,091	1,271,763
Machinery and Transport Equipment	2,146,665	2,433,392	1,067,107
Textiles and Apparel	403,880	599,425	367,913
Other	301,400	289,640	251,636
TOTAL	5,078,335	5,095,452	3,510,825
Imports			
Food	470,662	556,114	504,419
Mineral Fuels	2,376,618	2,935,059	3,061,365
Crude Oil	1,951,563	2,332,893	2,340,877
Chemicals	198,019	244,551	230,068
Textiles and Apparel	533,042	551,387	572,759
Other	745,033	1,004,698	983,806
TOTAL	4,323,374	5,291,809	5,352,417
Trade Balance	754,961	-196,357	-1,841,592

Source: Japan Tariff Asociation, Summary Report: Trade of Japan

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Simplification of Import Procedures Continues in Japan

Japan is continuing to consider changes in customs inspection procedures and standards in order to ease what foreign exporters continue to regard as a barrier to trade. Recent actions include recommendations from the Administrative Management Agency (AMA), the Ministry of Health and Welfare and the Ministry of Transportation.

The Administrative Management Agency conducted a lengthy review of complaints about inspection procedures during February and March, focusing on problems that have

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-April 1982	January-April 1983	February 1983	March 1983	April 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 3,870	$ 7,139*	$ 2,146*	$ 2,856*	$ 2,755*
Exports (f.o.b.)	149,522	137,663	47,132	45,368*	11,028*	12,962*	12,054*
Imports (f.o.b.)	129,555	119,584	43,262	38,229*	8,882*	10,106*	9,299*
Current Account Balance	4,770	6,850	350	3,716*	947*	1,913*	2,300*
Long-Term Capital (net)	-9,672	-14,969	-7,781	-5,124*	-265*	-2,205*	-2,033*
Overall Balance	-2,144	-4,971	-6,474	1,363	1,313	597	-1,055
International Reserves (end of period)	28,403	23,262	26,807	24,272	23,754	24,015	24,272
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	-202	3,763*	1,403	2,033	2,025*
Exports (f.o.b.)	152,030	138,831	47,761	45,451*	11,036	13,002	12,186*
Cars	18,445	18,015	6,137	6,488*	1,620	1,415*	1,830*
Steel	16,669	15,645	5,501	3,960*	967	1,139*	1,001*
Imports (c.i.f.)	143,290	131,931	47,963	41,688*	9,633	10,969	10,161*
Crude Oil	53,343	46,274	17,879	14,848*	3,531	3,791*	3,346*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	3,933	4,518*	1,099	1,268	1,546*
Exports (f.o.b.)	38,609	36,330	12,324	12,011*	2,826	3,253	3,407*
Imports (c.i.f.)	25,297	24,179	8,391	7,493*	1,727	1,985	1,861*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥235.40	¥239.40	¥237.70
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-5,877	-5,810	-1,471	-1,659	-1,328
Exports (f.a.s)	21,823	20,966	6,928	6,558	1,424	1,781	1,752
Industrial Supplies	8,983	9,173	3,297	2,889	582	755	838
Food and Feed	5,896	4,971	1,497	1,576	380	407	416
Capital Goods	4,767	4,434	1,398	1,345	287	412	325
Consumer Goods	1,318	1,356	433	457	107	126	118
Imports (Customs)	37,612	37,744	12,805	12,368	2,895	3,440	3,080
Automotive Products	12,950	12,890	4,323	4,471	1,086	1,282	1,002
Industrial Supplies	7,179	6,795	2,513	1,671	298	452	414
Consumer Goods	8,340	7,842	2,598	2,511	551	688	665
Capital Goods	8,589	9,530	3,081	3,502	810	962	940

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-March 1982	January-March 1983	January 1983	February 1983	March 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	10.6%	7.6%	7.7%	7.4%	7.6%
Industrial Production	1.0%	0.3%	2.8%	-1.8%	-1.7%	-1.5%	-2.0%
Manufacturing Operating Rate	-4.6%	-2.6%	-1.3%	n.a.	-2.7%	-3.6%	n.a.
Number of Bankruptcies	-1.5%	-2.8%	-5.0%	5.7%	1.1%	4.7%	10.3%
Residential Construction Starts	-9.2%	-0.5%	-3.6%	4.5%*	20.7%	5.2%	-7.0%*
Job Openings to Applications (ratio)	0.68	0.61	0.65	0.60	0.60	0.59	0.61
Nominal Wages	5.3%	4.5%	4.3%	5.7%	5.9%	5.9%	5.3%
Labor Productivity	3.5%	1.6%	3.3%	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.5%	-0.7%	-0.1%	-0.7%	-1.4%
Consumer Prices	4.9%	2.7%	3.1%	2.1%	2.0%	1.9%	2.3%
Yen-Based Export Prices	1.2%	3.9%	7.5%	-5.1%	-3.5%	-5.5%	-6.2%
Yen-Based Import Prices	1.6%	7.9%	8.9%	-0.6%	2.6%	-0.3%	-4.0%

*Preliminary

For Japan's most recent GNP data, see JEI Report No. 11B, March 25, 1983.

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JEI

REPORT

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U.S. EXPORTS TO JAPAN, BY COMMODITY, 1982

Summary

Despite the faltering pace of Japanese economic growth and the appreciation of the dollar, the performance of U.S. exports to Japan in 1982 did not turn out to be as poor as projections had indicated. Sales did drop for the first time since 1975, but only by 3.9 percent to $21 billion. Moreover, most of this decline reflected lower prices for food and feed commodities, which fell 15.7 percent to $5 billion after increasing by 9.3 percent in 1981. Exports of capital goods (including automotive products) reversed course as well, with a 7-percent decrease to $4.4 billion replacing a year-earlier gain of 9.8 percent; however, this contraction was largely the result of a plunge in aircraft sales, a volatile export item. In contrast, deliveries of industrial supplies rebounded from a 1981 drop of 5.5 percent and went up 2.1 percent to $9.2 billion, while consumer goods remained firmly entrenched in the plus column, expanding 2.9 percent to nearly $1.4 billion on top of an earlier gain of 14.3 percent.

Export Highlights

Industrial Supplies - Shipments of intermediate goods held up surprisingly well last year considering the sluggish state of Japanese industrial production and the strength of the dollar. Overbuying, though, accounted for some of this unexpected resiliency. Coking coal was a case in point. When Japanese steel makers sat down in early 1982 for their annual round of contract negotiations with U.S. and other foreign coking coal companies, they were confident that steel production, which had fallen in both 1980 and 1981, would recover at least modestly. As it turned out, the mills overcommitted for coal since steel output continued to contract, dropping to the lowest level in ten years. To make matters worse, the industry overbought in the U.S. spot market. Steel producers had significantly expanded their spot purchases of American coal in 1981 to make up for shortfalls in contracted Australian shipments, and they continued to buy large volumes of U.S. spot-market coal in the first part of 1982, assuming that mine strikes and port delays would keep on disrupting deliveries from their top supplier. This pessimism proved to be unfounded, as Australian mines managed to deliver contracted coking coal quantities to the mills for the first time in years. From late summer on, therefore, steel makers took only part of their contracted tonnage from suppliers in this country and in Australia and Canada. Still, by year-end, American coal companies had shipped nearly 22.4 million tons of coking coal to Japan, or 2.1 percent more than in 1981. Even though weak Japanese demand for electric power and cement cut shipments of steam coal 13.7 percent to 3.4 million tons, this gain was enough to push U.S. bituminous coal exports up 3.6 percent in 1982 to $1.5 billion.

Overbuying was a factor as well behind the turnaround in U.S. wood product exports last year. Shipments of logs and lumber had tumbled by two-fifths between 1979 and 1981 as importers tried to bring inventories, swollen by speculative buying in 1979, in line with the depressed state of Japanese residential construction starts. By late 1981 stocks had been worked down to near normal levels. With the housing market showing signs of bottoming out after a three-year slide, trading companies started to step up their log purchases. American logs generated the most buying activity since prices had been driven down not only by the slump in homebuilding here but also by stiff competition among U.S. forest products firms for export business to make up for losses on their domestic sawmill operations. Some of the additional trade in U.S. logs, which expanded 11.5 percent to nearly 2 billion board feet, displaced logs cut from Japanese forests, now at a price disadvantage; some substitution of American softwood logs for Southeast Asian hardwood logs, in short supply because of export restrictions, also took place. For the year, though, there was a net increase in total Japanese log supplies, which led to an inventory buildup when the signs of a sustained housing upturn proved to be premature. Moreover, lumber imports were up sharply despite the fact that low U.S. log prices made the output of Japanese sawmills more competitive with foreign-cut lumber. This added to inventory problems but benefited the rising number of U.S. sawmills willing to cut to Japanese specifications. They upped their shipments 19.7 percent to almost 628 million board feet, helping to boost the value of log and lumber exports 2.4 percent to $1 billion-plus.

While importers' misjudgments about market conditions in Japan contributed to increased exports of coking coal and wood products, more often than not U.S producers parlayed cost advantages to expand sales of industrial supplies. Chemical products, for example, advanced 13.5 percent to over $1.3 billion, in part, admittedly, because of another big jump in shipments of radioactive isotopes but also because of increased exports of petrochemical intermediates. Lower energy costs, both for feedstocks and fuels, and larger, more efficient plants for the production of ethylene and propylene, two of the basic building blocks for intermediates, give American petrochemical manufacturers a decided edge over their Japanese competitors in both basic commodity-type products like ethylene dichloride, ethylene glycol, vinyl acetate monomer and acrylonitrile and in new intermediates or special grades of them. Exporters exploited this advantage in boosting shipments of most commodity products in 1982, but in at least one case — styrene monomer, a benzene derivative, lower U.S. costs did not prevent a sales contraction; here, apparently, the American-made product was undercut in the Japanese market by domestic producers engaged in a price war. American companies also capitalized on their lower cost structure to expand exports of petrochemical products, particularly plastic materials, chemical fertilizers and pesticides.

Access to lower-cost energy supplies has also given American makers a competitive advantage in another energy-intensive product, aluminum. Although U.S. aluminum,

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bought primarily on the spot market, must compete in Japan with ingot imported under long-term contract or from overseas "develop-import" projects, relatively strong demand there for sheet and other mill products has provided increasing sales opportunities for all foreign ingot suppliers. Last year, moreover, depressed market conditions in the United States gave exporters an additional incentive to emphasize ingot sales to Japan, which they did, boosting shipments 43.5 percent to 344,608 tons. Sales of aluminum scrap, generally used by secondary smelters to produce ingot primarily for castings, fell, however, trimming the value of ingot and scrap exports by 4.2 percent to $0.5 billion.

One of the surprise developments of 1982 was the emergence of petroleum products as a major U.S. export to Japan since Japanese imports and consumption of these products continued to drop during the year. There were parallels, though, between this development and the expansion of aluminum ingot sales. U.S. primary petroleum producers, saddled with large inventories of refined products because of weak domestic demand, also pushed exports to Japan, particularly of heavy (residual) fuel oil, used by electric utilities and industry, and light (distillate) fuel oil, generally used by industrial producers as a fuel. Added to increased deliveries of petroleum coke, the traditional mainstay of petroleum product exports, sharply higher shipments of these two types of fuel oil swelled sales of petroleum products 113.4 percent to $0.6 billion.

Not all intermediate goods escaped the fallout from the combination of sluggish industrial production in Japan and the strong dollar. Paper base stocks certainly did not, as exports contracted for the second straight year, this time by 11.1 percent to under $0.5 billion. The weak Japanese market for paper and paperboard was the primary factor behind the drop in exports. In addition, pulp producers cut their reliance on imported wood chips because of relatively high U.S. prices on top of the strong dollar and, at the same time, upped their usage of waste paper as a raw material for pulp. For U.S. pulp exporters, the operative secondary factor was the dollar's strength, although demand for their product was indirectly affected by increased consumption of waste paper.

Food and Feed - Market analysts had projected that Japanese livestock and poultry formula feed production would mark time in 1982 for the third year in a row. These forecasts, as it turned out, were wrong since output rebounded modestly to a new record. What threw market watchers off was the unexpectedly strong impact a January 1982 cut in mixed feed prices had on demand. Feed mills had lowered their prices twice in 1981, but with little effect, because livestock and poultry producers' profit margins continued to be squeezed by relatively high feed prices and generally low product prices. Coming on top of the two earlier rounds of price cutting, however, last January's reduction eased one source of the profit squeeze by lowering the dominant cost component for most raisers. Unfortunately for U.S. and other coarse grain exporters, 1982's recovery in formula feed production did not translate into higher demand for imported corn since feed compounders expanded output by stepping up the use of surplus rice and non-grain ingredients. Buyers, moreover, tried to take advantage of declining U.S. corn prices and to equalize exchange rate fluctuations by delaying purchases from the United States as long as possible and then taking only enough to satisfy immediate requirements. Together, these factors resulted in a 3.3-percent drop in American corn shipments to 450.2 million bushels. With export prices falling, though, the value of sales tumbled 28.4 percent to under $1.3 billion.

The Japanese oilseed crushing industry's requirements for imported soybeans have traditionally been determined by the demand for soybean oil, not soybean meal. In 1981, however, feed millers, in a cost-cutting move, reduced the protein meal content of feed, especially soybean meal usage. Even though vegetable oil demand was extremely buoyant, this step forced crushers to rejuggle their priorities and limit the soybean crush. Soybean meal demand, while stronger in 1981, continued to put a cap on the size of the crush last year, again despite the fact that oil consumption increased. Since the United States supplies all of the soybeans crushed in Japan, these developments placed a ceiling on shipments in both 1981 and 1982. Export volume did increase marginally last year, edging up 1.7 percent to 149.5 million bushels, but this gain was primarily the result of the lower oil content of the U.S. crop and, perhaps, a modest rise in purchases of food-grade soybeans, which make up about one-sixth of shipments. In any case, the small volume gain did little to offset a fall in export prices, with the result that sales declined 14.8 percent to less than $1 billion.

Through its control over the volume of wheat shipped into the country and the price at which imported as well as domestic wheat are resold to flour millers, the Japanese government has tried in recent years to slow the decline in Japanese rice consumption at the expense of increased demand for wheat. The results of these policies in 1982 were the now-familiar ones of virtually no growth in wheat flour consumption and flat wheat imports. Actually, U.S. wheat exporters, who shipped 122.9 million bushels worth a little under $0.6 billion to Japan last year, were lucky to hold shipments very close to 1981's level, since Japanese wheat production reached its highest level in 13 years; moreover, demand for wheat for feed use, which accounts for nearly one-fifth of American tonnage, was off.

Capital Goods - Aggregate data on capital goods exports present a distorted picture of how well American companies scaled the twin hurdles of sluggish Japanese plant and equipment spending and the strong dollar in 1982 since almost all of the drop in sales reflected a 48.4-percent plunge in commercial aircraft sales to $0.4 billion. Like sales to other airlines, deliveries of jetliners to Japan Air Lines (JAL) and the two domestic carriers are cyclical, depending on such factors as current and projected passenger traffic, the airlines' finances, and the age of their fleets. With demand for airline services weak since 1979 because of the state of the Japanese economy, and with JAL's finances rocky for this reason as well as because of the jump in fuel prices, the three airlines cut orders despite their need for more fuel-efficient, quieter planes. As a result, they only took delivery of eight large transports in 1982, compared with 15 to 21 a year during the 1978-81 period.

The export performance turned in by American makers of data processing equipment, which lifted their sales 12.2 percent to more than $0.8 billion, was the best example of what many other U.S. capital goods industries achieved on a more modest scale in the Japanese market last year. In raising exports, computer manufacturers overcame not only the obstacles of weak capital spending and a strong dollar but also an additional handicap: aggressive Japanese competition. Competition has become particularly fierce in the fast-growing market for personal computers, small business systems, word processors and associated storage devices and printers — a market once the province of American companies but now dominated by Japanese vendors. Since at least 1981, however, U.S. exporters have been engaged in a major rollback campaign, introducing new hardware and software products tailored to the Japanese market and broadening distribution channels. These efforts, as well as parallel steps by American manufacturers to regain share in the larger but slower-growing market for minicomputers and mainframes, were reflected in the export expension. But the main source of export growth in 1982 was parts, a major portion of which was apparently destined for International Business Machines Corp.'s Japanese manufacturing operation, where the industry giant makes a variety of mainframes.

Consumer Goods - Continuing gains in consumer goods exports in recent years have been generally attributable to pharmaceuticals. Last year was no exception, as sales of pharmaceuticals expanded 13.8 percent and topped the $0.5-billion mark. Major U.S. drug firms, with their well-established and growing manufacturing, sales and research operations in Japan, generate a considerable portion of this trade. In product lines like antibiotics, for example, the companies bring in active ingredients for formulation at their domestic plants or import the final product if sales do not dictate local production. Exports of blood and blood derivatives, the other major product line, apparently go to Japanese organizations for research purposes, however.

Export Prospects

With the Japanese economy continuing to bump along in a rut and the dollar showing no signs of weakening, the bleak forecasts made for U.S. exports to Japan in 1982 could be realized this year. Sales of coking coal will be off by a large margin, not only because steel mills have a glut of coal in inventory or under long-term contract but also because they won significant price concessions from American suppliers on 1983 shipments. Barring a sustained turnaround in Japanese housing starts in the second half of the year, log and lumber shipments are also expected to fall, as are exports of paper base stocks. Moreover, Japanese airlines will probably take delivery of fewer jetliners in 1983 than they did last year. Agricultural exports are a big question mark. Sales could expand, buoyed by another modest gain in mixed feed production and firmer prices for corn, but higher corn prices could choke off the recovery in formula feed demand and dampen sales. On the plus side, sales of chemicals, aluminum ingot, petroleum products, data processing equipment and pharmaceuticals are projected to expand further. Gains in these products, however, might not be enough to keep total exports from falling for the second straight year.

For further information, contact Susan MacKnight.

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U.S. Exports to Japan, by Commodity, 1981 and 1982

(in millions of dollars and indicated quantity units)

Commodity	Quantity		Value		Percent Change 1981/82	Japan's Share of U.S. Exports 1982
	1981	1982	1981	1982		
Total Exports			$21,823.0*	$20,966.1**	-3.9%	9.9%
Industrial Supplies			8,982.6	9,172.9	2.1	14.9
Bituminous Coal	25,842,549 stn	25,766,013 stn	1,472.3	1,525.4	3.6	25.7
Coking Coal	21,901,964 stn	22,363,738 stn	1,280.5	1,350.7	5.5	34.2
Steam Coal	3,940,585 stn	3,402,275 stn	191.9	174.7	-9.0	8.8
Petroleum Products			290.9	620.9	113.4	13.5
Jet Fuel	238,853 bbl	1,511,121 bbl	10.1	61.8	511.9	46.0
Light Fuel Oils	393,658 bbl	4,428,700 bbl	16.1	168.0	943.5	16.6
Number 4-Type Fuel Oils	9,749 bbl	1,029,184 bbl	0.4	37.1	9,175.0	53.6
Heavy Fuel Oils	1,887,076 bbl	5,644,578 bbl	54.4	162.0	197.8	8.5
Lubricating Oils			45.3	26.2	-42.2	3.7
Petroleum Coke (excl. calcined)	1,886,660 stn	2,428,538 stn	93.0	109.4	17.6	28.6
Natural Gas	56,888,320 mcf	52,534,481 mcf	328.5	291.9	-11.1	99.7
Nuclear Reactor Fuels	29,089 lb	20,134 lb	179.3	114.8	-36.0	59.2
Logs and Lumber	2,298,130 mbf	2,606,263 mbf	1,020.9	1,045.3	2.4	49.9
Douglas-fir Logs	849,696 mbf	999,502 mbf	406.0	428.5	5.5	70.5
Western Hemlock Logs	689,149 mbf	769,965 mbf	276.5	285.1	3.1	71.8
Lumber	524,086 mbf	627,543 mbf	188.6	206.7	9.6	25.8
Paper Base Stocks			544.4	484.0	-11.1	25.3
Wood Chips	2,746,003 stn	2,508,090 stn	235.2	206.8	-12.1	89.5
Wood Pulp	615,719 stn	590,176 stn	297.9	265.8	-10.8	18.8
Paper and Paper Products			233.0	239.2	2.7	9.9
Newsprint	127,328 stn	176,164 stn	67.2	81.5	21.3	57.0
Kraft Linerboard	125,891 stn	117,715 stn	46.9	36.1	-23.0	6.7
Coated Container Base Stock	108,780 stn	108,834 stn	73.1	70.2	-4.0	32.2
Chemicals (excl. plastics, fertilizers and insecticides)			1,185.1	1,345.4	13.5	13.3
Cyclic Hydrocarbons			161.5	89.8	-44.4	11.6
Styrene	159,626 stn	57,937 stn	96.9	31.3	-67.7	11.3
Para-xylene	20,819,105 gal	21,127,442 gal	42.9	38.8	-9.6	17.0
Cyclic Organic Intermediate Chemical Compounds			112.6	100.1	-11.1	10.7
Acyclic Organic Chemical Compounds			286.1	351.6	22.9	15.8
Ethylene Dichloride	113,405 stn	220,895 stn	23.2	41.6	79.3	59.3
Ethylene Glycol	10,488 stn	90,953 stn	4.3	30.1	600.0	33.5
Vinyl Acetate Monomer	48,625 stn	68,661 stn	23.6	28.4	20.3	18.6
Acrylonitrile	51,652 stn	78,844 stn	30.8	47.5	54.2	19.1
Uranium and Thorium Compounds	240 stn	591 stn	136.5	336.5	146.5	39.9
Molybdenum Compounds	2,383 stn	2,666 stn	28.8	20.5	-28.8	49.0
Sodium Compounds			31.8	27.6	-13.2	5.2
Color Lakes and Toners, Dyes and Paints			33.2	34.3	3.3	7.2
Antiknock Compounds and Additives for Lubricating Oils			76.4	78.8	3.1	10.1
Compound Catalysts (excl. nickel)			25.8	28.6	10.9	13.2
Plastic and Synthetic Resin Compounds			279.3	295.5	5.8	8.8
Polyvinyl Chloride and Copolymer Resins (uncompounded)	20,085 stn	47,892 stn	15.7	25.9	65.0	19.5
Polycarbonate Resins	17,210 stn	14,720 stn	35.3	32.2	-8.8	56.9
Film, Strips and Sheets			34.0	40.8	20.0	6.8

Commodity	Quantity		Value		Percent Change	Japan's Share of U.S. Exports
	1981	1982	1981	1982	1981/82	1982
Synthetic Rubber			$ 41.2	$ 49.1	19.2%	8.9%
Fertilizers and Insecticides			226.1	248.8	10.0	7.1
Crude Phosphates	1,504,179 stn	1,247,328 stn	61.2	49.7	-18.8	13.0
Fertilizers			65.1	95.9	47.3	6.9
Diammonium Phosphate Fertilizers	203,538 stn	335,358 stn	33.2	53.4	60.8	7.9
Unmixed Pesticides			41.9	48.7	16.2	7.4
Manufactured Pesticides			58.6	54.5	-7.0	9.0
Still X-Ray Film	32,466,269 ·ft	34,836,113 sft	28.1	27.1	-3.6	26.7
Photosensitive Papers			29.0	29.4	1.4	10.1
Steel Scrap	1,190,750 stn	1,529,568 stn	117.7	145.1	23.3	23.8
Nonferrous Ores and Scrap			503.0	367.3	-27.0	26.0
Copper Ore	128,710 stn	163,417 stn	160.5	157.2	-2.1	74.4
Copper Scrap	32,758 stn	27,913 stn	40.9	28.6	-30.1	16.7
Aluminum Scrap	175,536 stn	146,357 stn	170.8	106.1	-37.9	67.3
Molybdenum Ore	3,979 stn	2,706 stn	73.6	37.4	-49.2	16.1
Nonferrous Metals			443.2	446.7	0.8	25.3
Aluminum Ingot	240,219 stn	344,608 stn	349.3	392.2	12.3	82.4
Iron and Steel (incl. ferroalloys)			43.6	45.6	4.6	2.1
Silver	3,747,006 toz	4,467,184 toz	41.2	35.7	-13.3	31.2
Platinum and Platinum Group Metals	337,027 toz	201,231 toz	130.0	54.6	-58.0	55.3
Unmanufactured Nonmetallic Minerals			89.1	92.8	4.2	12.3
Kaolin Clay	437,560 stn	444,002 stn	47.0	52.8	12.3	35.9
Manufactured Mineral Supplies			64.7	69.2	7.0	4.5
Industrial Textile Fibers, Yarn and Fabric			86.6	71.5	-17.4	2.6
Manmade-Fiber Yarn			28.1	18.5	-34.2	3.1
Raw Cotton	1,226,897 rba	1,486,335 rba	503.6	500.6	-0.6	25.6
Whole Cattle Hides	7,495,175 pc	6,443,988 pc	255.1	207.2	-18.8	29.8
Leaf Tobacco	58,491 stn	55,159 stn	301.7	309.9	2.7	20.0
Inedible Tallow	96,474 stn	76,424 stn	39.8	33.9	-14.8	5.9
Food and Feed			5,896.2	4,971.0	-15.7	15.9
Corn (excl. seed and popcorn)	465,723,914 bu	450,200,403 bu	1,781.4	1,275.0	-28.4	22.9
Sorghum (excl. seed)	114,348,951 bu	73,621,090 bu	408.8	205.5	-49.7	29.7
Soybeans (excl. seed)	147,025,777 bu	149,458,282 bu	1,137.9	970.0	-14.8	15.6
Animal Feeds			151.6	140.3	-7.5	5.7
Dried Beet Pulp	445,756 stn	370,765 stn	63.5	49.4	-22.2	74.9
Alfalfa Meal and Cubes			40.0	55.3	38.3	65.8
Wheat	123,617,105 bu	122,924,724 bu	615.0	563.7	-8.3	8.5
Barley	13,501,566 bu	10,832,005 bu	44.8	30.5	-31.9	18.3
Fruits and Vegetables			444.7	401.2	-9.8	14.8
Lemons	128,800 stn	118,258 stn	66.3	69.1	4.2	83.9
Grapefruit	175,668 stn	154,091 stn	59.1	47.3	-20.0	48.1
Oranges and Tangerines	84,679 stn	91,502 stn	44.5	51.3	15.3	26.1
Raisins	17,821 stn	17,060 stn	29.8	25.9	-13.1	24.5
Almonds			39.7	37.0	-6.8	15.6
Onions	106,814 stn	1,827 stn	35.7	0.5	-98.6	2.7
Frozen Vegetables			57.0	53.9	-5.4	57.7
Meat and Meat Preparations			501.5	529.5	5.6	41.2
Fresh and Frozen Beef	47,262 stn	57,855 stn	157.8	232.4	47.3	66.1
Fresh and Frozen Beef Offals	35,390 stn	34,726 stn	102.7	97.0	-5.6	39.2
Fresh and Frozen Pork	43,880 stn	33,332 stn	143.2	111.4	-22.2	68.8
Fresh and Frozen Poultry	71,449 stn	60,313 stn	81.5	67.6	-17.1	23.4

Commodity	Quantity 1981	Quantity 1982	Value 1981	Value 1982	Percent Change 1981/82	Japan's Share of U.S. Exports 1982
Eggs			$ 36.7	$ 26.1	-28.9%	23.4%
Fish and Fish Preparations			552.7	600.4	8.6	60.3
Fresh and Frozen Salmon	65,446 stn	98,407 stn	252.6	316.4	25.3	78.1
Fish Roe	13,263 stn	11,106 stn	112.1	95.4	-14.9	89.6
Frozen King Crab	5,676 stn	1,691 stn	37.0	16.2	-56.2	60.4
Frozen Snow Crab	15,740 stn	10,861 stn	53.6	61.7	15.1	97.4
Capital Goods			4,766.6	4,433.8	-7.0	5.0
Nonelectric Machinery			2,732.2	2,874.1	5.2	6.0
Data-Processing Equipment			746.9	838.3	12.2	9.0
Computers			182.4	205.5	12.7	10.1
Peripheral Equipment and Parts			517.9	573.0	10.6	8.2
Disk and Tape Storage Units			62.8	63.2	0.6	5.9
Terminals			53.1	35.9	-32.4	4.1
Parts			311.3	383.5	23.2	10.1
Magnetic Computer Disks and Tapes			36.5	27.1	-25.8	11.6
Semiconductor Production and Assembly Equipment and Parts			151.3	153.6	1.5	28.8
Measuring, Testing and Controlling Instruments and Parts			441.8	457.7	3.6	9.7
Industrial Process-Type Instruments and Parts			38.6	39.3	1.8	5.6
Chemical Analysis Equipment and Parts			55.6	45.9	-17.4	9.2
Physical Analysis Equipment and Parts			38.7	45.0	16.3	11.1
Equipment for Testing Electrical, Radio and Communications Circuits and Parts			157.8	163.4	3.5	15.2
Instruments for Measuring or Checking Electrical Quantities and Parts			39.5	35.3	-10.6	15.6
Scientific, Professional and Medical Equipment			218.6	201.7	-7.7	10.4
Electromedical and Electrotherapeutic Apparatus and Parts (excl. X-ray equipment)			88.5	79.2	-10.5	10.2
Medical Equipment Based on X-Rays and Parts			49.5	30.7	-38.0	14.2
Other Medical, Dental and Surgical Instruments and Parts			53.9	75.7	40.4	10.2
Power-Generating Machinery (excl. aircraft and automotive engines)			108.6	87.6	-19.3	2.9
Gas Turbines and Parts for Mechanical Drives			39.2	24.6	-37.2	3.1
Nonfarm Tractors, Parts and Attachments			51.6	40.3	-21.9	2.0
Excavating and Paving Machinery			40.4	45.6	12.9	2.1
Parts and Accessories for Oil and Gas Field Drilling Machines			159.9	248.8	55.6	6.2
Machine Tools and Parts			72.3	68.2	-4.3	6.7
Commercial and Industrial Heating and Cooling Equipment and Parts			51.5	45.9	-10.9	4.8
Pumps and Compressors			45.1	47.0	4.2	2.5
Filtering and Purifying Machinery and Parts			59.4	53.2	-10.4	8.5
Taps, Cocks, Valves and Similar Devices and Parts			40.0	36.0	-10.0	4.2
Equipment for Service Industries			127.3	158.2	24.3	6.6
Amusement Park Equipment and Parts			2.2	35.3	1,504.5	78.8
Electric Machinery			583.1	571.7	-2.0	4.4
Semiconductors			167.8	189.4	12.9	5.0
Integrated Circuits			119.4	142.7	19.5	17.1
Radar Apparatus (excl. for planes and boats) and Parts			50.2	54.1	7.8	14.8
Generators, Transformers and Accessories			76.5	52.6	-31.2	2.6
Connectors			27.0	30.5	13.0	11.8
Loudspeakers, Microphones, Amplifiers and Parts			35.2	25.8	-26.7	12.2

Commodity	Quantity 1981	Quantity 1982	Value 1981	Value 1982	Percent Change 1981/82	Japan's Share of U.S. Exports 1982
Transportation Equipment			$1,451.3	$ 988.1	-31.9%	3.6%
Commercial Aircraft	18 passenger or cargo jet transports; 74 light planes and helicopters	7 passenger or cargo jet transports; 37 light planes and helicopters	814.5	420.5	-48.4	8.7
Aircraft Engines, Parts and Accessories			386.6	336.9	-12.9	6.9
Aircraft Engine Parts			104.4	153.0	46.6	10.8
New Cars	4,201 ut	3,149 ut	46.5	44.0	-5.4	1.5
Automotive Parts, Engines and Bodies			117.4	124.3	5.9	1.2
Consumer Goods			1,318.4	1,356.1	2.9	9.5
Pharmaceuticals			448.9	510.7	13.8	21.0
Bulk Antibiotics			133.3	141.3	6.0	22.0
Blood and Blood Derivatives			124.6	161.1	29.3	47.1
Diuretic Preparations			54.4	28.5	-47.6	72.4
Cigarettes	258,837,200 pk	237,644,800 pk	73.8	67.2	-9.8	5.4
Electric Household Appliances			37.9	29.9	-21.1	2.0
Stainless Steel Cooking and Kitchenware			20.2	43.2	113.9	67.0
Records and Consumer Electronics			28.6	24.0	-16.1	4.8
Toys and Sporting Goods			118.5	131.5	11.0	11.9
Golf Equipment			60.3	73.5	21.9	56.4
Still Film in Cartridges and Rolls	42,022,008 ut	42,762,067 ut	64.8	59.3	-8.5	16.7
Clothing			85.0	65.4	-23.1	6.9
Gem Diamonds and Other Gem Stones			69.9	54.0	-22.7	15.2
Jewelry and Antiques			55.5	47.3	-14.8	12.3
Printed Material			47.1	52.1	10.6	3.9
Miscellaneous			859.1	1,032.3	20.2	6.2

*Includes $182.2 million in Department of Defense shipments.
**Includes $298.2 million in Department of Defense shipments.

Key to quantity abbreviations:

bbl = barrels
bu = bushels
gal = gallons
lb = pounds
mcf = thousand cubic feet
pc = pieces

pk = packs
rba = running bales
sft = square feet
stn = short tons
toz = troy ounces
ut = units

Source: U.S. Department of Commerce, U.S. Exports: Schedule E Commodity by Country (FT 410), December 1981 and December 1982

7/7/83

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LDP Wins House of Councillors Elections

Prime Minister Nakasone won a ringing endorsement from Japanese voters in the House of Councillors election. The ruling Liberal Democratic Party (LDP) increased its majority by winning 68 of the 126 seats in the House of Councillors that were up for election — giving it a total of 137 seats out of 252 (see accompanying chart). The Japan Socialist Party (JSP), the second largest party, lost in key urban districts.

While the Upper House has less political clout than the House of Representatives (511 seats), in the past it has served as an indicator for the lower house elections. The turnout was a sluggish 57 percent, despite a voting reform initiating proportional representation (see JEI Report No. 24B, June 24, 1983). A number of national polls suggested that many voters were not prepared to support a specific party.

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The elections were a blow to the opposition parties, which had hoped to focus on discontent with the prime minister's foreign and defense policies. In the LDP, former Prime Minister Tanaka attempted to consolidate his power by maneuvering party endorsements for his faction's candidates. While most of them were elected, a few suffered unexpected losses — an indication that Mr. Tanaka's grip might be weakening. Susumu Nikaido, LDP Secretary General, said that the elections were a show of support for Mr. Nakasone. His victory, and Prime Minister Thatcher's landslide, political observers noted, confirm the unity of the western alliance.

Fumiko Mori

Party	Number of Seats Won Local	Proportional	Total	Upper House Strength
LDP	49	19	68	137
JSP	13	9	22	44
Komeito	6	8	14	27
JCP	2	5	7	14
DSP	3	4	6	13
NLC	2	1	2	4
NIIN	1	1	1	3
Welfare	--	1	1	1
Salarymen	--	2	2	2
Citizens	--	0	0	2
Independents	0	--	0	2
Total	76	50	126	252*

*Three seats are vacant.

Source: Nihon Keizai Shimbun, June 28, 1983

House Panel Meets on Reciprocity Legislation

Congressional concern with sagging U.S. exports and a growing realization of the importance of trade has focused more attention on the direction of U.S. trade policy. Even though trade legislation comes under the purview of the Ways and Means Committee, the House Banking Committee has initiated a series of hearings to consider U.S. global competitiveness. Similarly, the House Energy and Commerce Committee has wrested primary jurisdiction for the controversial domestic-content legislation away from Ways and Means. And last week, the Subcommittee on Commerce, Transportation and Tourism held a hearing to consider measures that would expand and clarify the president's authority to retaliate against foreign unfair trading practices. Although the Senate has already passed such legislation (S. 144, the Danforth reciprocity bill), it is significant that another committee has again stolen the lead on a matter which would ordinarily come under the jurisdiction of the Ways and Means Committee.

The lead witness, Commerce Undersecratary Lionel Olmer, used this opportunity to underscore the administration's support for S. 144 and the House companion, H.R. 1571, introduced by Rep. James R. Jones (D, Okla.) These bills reflect a positive approach to the problem of attaining equitable market opportunities, he told the panel. H.R. 1571, by providing negotiating objectives as well as necessary authority to pursue trade liberalization in the areas of services, high-technology trade, and foreign investment, would bolster our position. Similarly, he said, clarifying Section 301 of the Trade Act

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1981	FY 1982	April-June 1982	July-September 1982	October-December 1982	January-March 1983(p)
Gross National Product	¥198,068.2	¥204,567.1	¥202,624.0	¥204,511.6	¥205,333.9	¥205,668.2
	(3.3%)	(3.3%)	(8.0%)	(3.8%)	(1.6%)	(0.6%)
Personal Consumption Spending	103,090.5	107,915.8	106,674.8	107,118.8	108,613.6	109,169.0
	(1.1%)	(4.7%)	(9.4%)	(1.7%)	(5.7%)	(2.1%)
Private Residential Construction	10,653.2	10,829.4	10,451.8	10,514.1	11,324.7	11,195.8
	(-2.0%)	(1.7%)	(3.5%)	(2.4%)	(34.0%)	(-4.5%)
Private Fixed Nonresidential Investment	34,130.3	34,534.8	34,504.3	34,725.1	34,611.1	34,278.8
	(4.4%)	(1.2%)	(2.2%)	(2.6%)	(-1.3%)	(-3.8%)
Change in Business Inventories	1,416.7	944.8	1,447.6	1,143.6	1,034.0	153.3
	(-23.1%)	(-33.3%)	(*)	(*)	(*)	(*)
Government Current Expenditures	18,839.4	19,618.5	19,362.1	19,509.1	19,595.3	20,001.2
	(3.9%)	(4.1%)	(6.3%)	(3.1%)	(1.8%)	(8.5%)
Government Fixed Investment	18,581.9	18,889.7	18,758.2	19,793.6	18,917.7	17,922.2
	(2.9%)	(1.7%)	(20.2%)	(24.0%)	(-16.6%)	(-19.4%)
Change in Government Inventories	-272.3	-313.8	11.9	-264.7	-865.5	-145.9
	(15.0%)	(15.2%)	(*)	(*)	(*)	(*)
Net External Sector	11,628.5	12,147.9	11,413.3	11,972.0	12,103.0	13,093.8
	(38.6%)	(4.5%)	(2.9%)	(21.1%)	(4.4%)	(37.0%)
Exports of Goods and Services and Factor Income Received	40,001.2	40,210.3	40,119.9	41,146.2	39,757.5	39,884.7
	(15.3%)	(0.5%)	(-2.4%)	(10.6%)	(-12.8%)	(1.3%)
Imports of Goods and Services and Factor Income Paid	28,372.7	28,062.4	28,706.6	29,174.2	27,654.5	26,790.9
	(7.8%)	(-1.1%)	(-4.4%)	(6.7%)	(-19.3%)	(-11.9%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

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THE MARITIME INDUSTRY: THE U.S. AND JAPAN

Summary

To many people shipping is an obscure and arcane world. Yet, with the bulk of U.S.-Japan merchandise trade moving on the ocean, the maritime industry is a significant aspect of bilateral relations. Both nations to some extent share the same problems in their domestic-flag carriers, and both exert a rather heavy government policy role on this industry. However, reliance on domestic-flag vessels has not declined in Japan as much as in the United States. This report investigates the structure and importance of the U.S. and Japanese shipping industries, government policies, and issues of current bilateral significance. Maritime affairs are of particular importance at the moment because of the possibility that Congress will enact new legislation this year affecting the U.S.-flag merchant fleet.

Introduction

Despite the rise of air cargo service, ocean shipping remains the dominant form of international freight transportation, not only for bulk raw materials but also for manufactured goods. Because maritime transportation is a relatively labor-intensive industry, however, and because of national differences in safety regulations and other standards, inspections and operating rules, vessel registry has shifted away from high-wage industrial countries. This trend has been noticeable for some time in the United States and more recently in Japan. But the maintenance of a domestic-flag merchant fleet has both national security justifications as well as powerful emotional attractions. As a result, both Japan and the United States have devised policies designed to protect and encourage the industry. While neither country has been completely successful in its policy goals, the proportion of trade borne by the U.S. domestic-flag fleet has declined far more drastically than it has in Japan.

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Looking at the overall importance of ocean shipping to international trade, it can be seen that the United States is less dependent on this mode of transportation. For example, in 1960, 64 percent of U.S. exports and 76 percent of imports moved by vessel, but those percentages declined to 54 percent and 68 percent, respectively, by 1981. The U.S. position is affected by the existence of a land border with Canada (its largest trading partner) and the short distances to some of its major trading partners. In Japan, on the other hand, the absence of any land borders and isolation from the country's major trading partners mean that as of 1982, 92 percent of the value of exports and 90 percent of the value of imports still moved by ocean vessels. Even with the deterioration of the U.S.-flag feet's importance and the smaller proportion of goods moving by sea, the industry's services receipts are not an insignificant factor in the balance of payments. The importance of these earnings in both Japan and the United States is explored in greater detail below.

Maritime transportation consists of three different services — liner, irregular and tanker. Liner service provides scheduled sailings on regular routes and is largely organized into cartel-like groups called conferences. As will be detailed below, the U.S.-flag fleet is largely concentrated in liner service. Irregular service, or tramp service, includes all other dry cargo in which service is not on a regular basis. Tanker service is exactly what the name implies. Neither irregular nor tanker service is organized on a conference basis and in tanker and dry bulk traffic, the distinction between shipper and shipping company is blurred.

Maritime Trade Structure

The United States — Tables 1 and 2 show what has happened to the relative role of the U.S.-flag merchant fleet in the transportation of U.S. exports and imports. In 1981, only 3.6 percent of U.S. waterborne export tonnage and 5.3 percent of import tonnage moved on U.S.-flag vessels. In 1955, the export share was almost 18 percent and the import share was 26 percent. As with much other economic data, the relative strength of the United States in the 1950s was heavily affected by the war, which caused the rapid buildup of the U.S. merchant fleet and the destruction of others.

Despite the overall decline of the fleet, these tables demonstrate that the United States has had a relative strength in liner service. Even in 1981, the proportion of liner tonnage that was handled on U.S.-flag vessels was 26 percent; for imports the proportion was 29 percent. These proportions have also declined but not to the same extent as overall traffic. In 1955, 37 percent of liner exports and 40 percent of liner imports sailed on U.S. bottoms.

These data do not show Japan separately, but the picture for Japan and Korea together parallels the overall data. The proportion of total tonnage moving on U.S. bottoms is as small, and the United States has a much higher proportion of the liner traffic. In 1981, U.S.-flag liner-export tonnage to this region was 22 percent, and imports amounted to 21 percent. For liner traffic, the United States does capture a somewhat smaller share of the trans-Pacific business than of the Atlantic or Mediterranean markets, but the differences are small. Offsetting the relatively strong showing in liner transportation is the United States' miniscule role in the irregular market, or the tanker market. The U.S. decline has been steepest in export and import tonnages in these categories, ranging in 1981 from 1 to 4 percent.

The sharp drop in U.S.-flag tonnage is somewhat misleading, since a large portion of export and import tonnage moves on what are known as flags of convenience, or more

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technically, ships under "Effective United States Control" (EUSC). These are vessels owned by Americans, registered abroad and covered by government agreements to insure U.S. control in the event of a national emergency. If the tonnage of exports moving on EUSC vessels is added to that moving on U.S.-flag vessels, the proportion of exports under effective U.S. control or ownership would be 35 percent in 1978, and the proportion of imports an even higher 54 percent. However, the EUSC fleet remains a matter of controversy to officials involved in maritime policy.

Even so, ocean transportation provided the United States $2.2 billion in freight receipts for international transportation-related services in the balance-of-payments statistics in 1981, or 52 percent of total transportation receipts (with the rest coming from port fees and charter fees). On the other hand, the balance of payments also show freight payments of $5.7 billion, leaving the United States with a $3.0-billion deficit in the balance of ocean freight transportation. This performance is stronger than one would expect from the very small percentages of overall tonnage moving on U.S.-flag vesels and indicates the much higher revenue per ton associated with liner transportation than with the irregular dry cargo or tanker operations.

Japan — Data on Japan's waterborne trade are presented in Table 3. With the high growth of the Japanese economy, there has been a corresponding jump in waterborne tonnage — a 10-fold increase in export tonnage and a 12-fold increase in import tonnage between 1955 and 1981. Even in 1955, with a merchant marine that was still recovering from the war's destruction, 43 percent of the export tonnage and 52 percent of the import tonnage moved on Japanese-flag vessels. These proportions reached a peak around 1960 and since then have been in fairly steady decline. By 1981, only 21 percent of export tonnage and 37 percent of import tonnage moved on Japanese-flag vessels, indicating that the drop has been greater for exports than for imports.

Japan does not provide a statistical breakdown of traffic by type of service and flag of carrier, but the data do show the importance of bulk carriers in imports, with 48 percent of import tonnage moving in tankers, 50 percent in irregular service and only 2 percent on liners. Since Japan has no raw materials to export, the portion of export tonnage moving in liner service is a much higher 36 percent, with 59 percent in irregular service and only 5 percent in tankers.

As is the case in the United States, much of the decline in the role of Japanese-flag vessels is the result of a shift to flags of convenience. If the proportion of export tonnage moving on Japanese-controlled flags of convenience is added to that of the Japanese-flag fleet, the result is a much more constant 43-58 percent since 1955. In 1981 the proportion was 55 percent, virtually identical to what it was almost 30 years earlier. For imports, the addition of the flag-of-convenience tonnage raises the Japanese-controlled share of tonnage from around 50 percent in the 1950s to a peak of 76 percent in 1976, followed by a slow decline to 69 percent in 1981. Both the share of exports and imports moving under effective Japanese control are somewhat higher than is the case for the United States, but the difference is not as striking when the domestic-flag fleets alone are compared.

With a much larger share of exports moving on domestic-flag vessels, it is no surprise that Japan fares better in ocean transportation receipts and payments than the United States. Ocean shipping provided Japan with $9.0 billion in receipts in 1981 — $7.5 billion in freight receipts and another $1.3 billion in leasing receipts. This was more than triple the receipts earned by the United States. Japan also managed to maintain a small surplus on ocean shipping, since freight payments ($3.2 billion) and leasing payments ($5.3 billion) came to only $8.5 billion.

Industry Structure and Policy in the United States

In both the United States and Japan the structure of the domestic-flag industry is closely tied to government policy, which in turn is geared to benefit or support not only the shipping industry but the shipbuilding industry as well. In 1981, the U.S.-flag fleet in active foreign trade service consisted of 216 vessels, with a deadweight tonnage of 5.1 million tons. This compared to a much larger fleet of 601 vessels in 1955 that had a deadweight tonnage of 6.9 million tons. Counting ships in domestic service as well, the United States had the 8th-largest fleet in the world, while Japan was in third place (behind Liberia and Greece) with a domestic-flag fleet that had a deadweight tonnage that was more than twice the size of the U.S. fleet. The U.S. fleet is also rather elderly, with vessels averaging 23 years old in 1980, compared to Japan's seven-year-old ships. However, many of these unsubsidized U.S. vessels operate only in domestic service, and the subsidized vessels (in international service) average only 11 years old. Predictably, as the number of vessels has declined, employment in the U.S. maritime service has dropped — from 57,500 in 1955 to only 18,300 in 1981.

Government policy toward the domestic industry is centered in a series of subsidy programs under the direction of the Maritime Administration of the Department of Transportation. In addition, the Federal Maritime Commission is responsible for regulation of the maritime industry (including conference agreements, vessel certification, etc.). The subsidies have been of two basic kinds until recently — construction deficiency subsidies (CDS) and operating deficiency subsidies (ODS). However, the CDS program has been terminated by the Reagan administration. In addition, there are several other incentives and guarantees available to U.S.-flag companies:

1. When in operation, the construction deficiency subsidy was paid directly to the shipyards (rather than the U.S. shipping companies) and was intended to offset the difference between the cost of constructing a ship in the United States and abroad. The maximum percentage of the total U.S. construction cost that the government would pay has varied, but by the end of the 1970s it was 50 percent. The federal government presently shows $17 million in CDS outlays in the FY 1984 budget stemming from previous commitments.

2. The operating deficiency subsidy is intended to offset the difference between operating a U.S.-flag vessel (which is subject to a number of cost-increasing restrictions explained below) and a foreign-flag vessel. The items intended to be offset by the ODS include wages, insurance and repair costs. The FY 1984 federal budget shows a budget authority of $429 million for ODS.

3. The U.S. tax codes also allow a tax deferral for all U.S.-flag operators on funds set aside for construction or reconstruction in U.S. shipyards.

4. The Federal Ship Financing Fund provides federal guarantees for interest payments and principal on loans approved by the government. In the FY 1984 budget, the government is authorized to guarantee up to $600 million in new loans, bringing the total outstanding loans covered by the guarantees to $8.4 billion. The fund, it should be noted, is self-financed by insurance premiums, fees and interest income.

5. In addition, U.S.-flag operators benefit from government-generated cargoes. Traffic that results from shipments under the Agriculture Surplus Commodities Program, the Agency for International Development (AID) and the Department of Defense, or is financed by the Eximbank, as well as oil for the strategic reserve, is all subject to a requirement that a minimum percentage must travel on U.S.-flag vessels.

6. The federal government also provides a number of more minor benefits, including market development, port promotion, research and development, and maritime training, among others. The FY 1984 federal budget allocates $11.5 million in R&D funds and $71 million for training.

Aside from the fact that all U.S.-flag vessels use American crews, those carriers receiving this variety of government subsidies and benefits have a number of obligations:

1. Until the Reagan administration called a halt, all ships had to be built and repaired in the United States. This stipulation has now been scrapped along with the CDS.

2. Companies must operate on routes declared essential by the government and must maintain scheduled sailings (i.e. provide liner service).

3. Shipping firms cannot mix international and domestic business.

4. Companies must meet government-mandated capital reserve requirements for ship replacement.

As a result of the rather heavy obligations involved in receiving ODS, not all U.S.-flag carriers have chosen to participate and some have discontinued their participation (such as Sea-Land Service Inc. and United States Lines Inc.). At the end of the 1970s, 18 of the 189 companies operating U.S.-flag vessels received ODS for all or part of their fleets a total of 160 vessels. However, most of the non-ODS recipients are carriers in the domestic market where subsidization is not necessary since the Merchant Marine Act of 1920 (the "Jones Act") prohibits all foreign-flag vessels from U.S. domestic trade.

One of the current issues in U.S. maritime policy involves precisely this distinction between international transportation and domestic transportation. In 1970 the CDS program was altered to include tankers because of the serious decline of this type of U.S.-flag vessel. Accordingly, there was a spurt of tanker construction under subsidy for international service. But with the decline in oil imports reducing profits in the world tanker market, operators of these vessels now want to buy out their ODS contracts so that the vessels will be eligible to operate in the domestic Alaska oil trade. Operators of unsubsidized (and generally smaller, older, less efficient) tankers in domestic service currently handling Alaskan oil are opposed to allowing the buy-out of the contracts. This type of problem nicely illustrates the dilemmas and conflicts of interest resulting from the maze of government regulations and benefits intended to assist the U.S.-flag industry.

Concerned that current policy is not achieving its purpose, Congress is now considering several pieces of legislation. These include H.R. 1242, the Competitive Shipping and Shipbuilding Act of 1983, introduced by Congresswoman Lindy Boggs (D, Louisiana) and H.R. 2692, the Government-Impelled Cargo Act of 1983, both of which mandate a stronger preference for U.S.-flag vessels. The Boggs bill would mandate an annual increase in the proportion of bulk cargoes moving in U.S. bottoms until the 20-percent level is reached. H.R. 2693 would mandate a wider preference for U.S.-flag vessels in government shipments. Neither of these bills seems to have much chance of passage.

Another maritime reform bill, S. 47, would widen the antitrust exemption for U.S.-flag shipping companies participating in liner conferences and make some other changes in matters such as rate setting. This bill has passed the Senate and its companion, H.R. 1878, is under review in the House Judiciary Committee. This bill could well pass Congress this year and it has some relevance to bilateral issues discussed below.

Industry Structure and Policy in Japan

As noted earlier, Japan has managed to maintain one of the world's largest domestic-flag fleets, despite a drop in the proportion of traffic carried. The Japanese international shipping industry is dominated by seven large companies — Nippon Yusen (NYK), Japan Line, Sanko Steamship, Mitsui O.S.K. Lines, Yamashita-Shinnihon Steamship, Kawasaki Kisen and Showa Line. As a result of a government restructuring in the early 1960s, many of the other international shipping companies are now subsidiaries of one of these seven firms. Of this group, only Sanko Steamship is not a participant in the government subsidy programs.

Japan subsidizes shipbuilding through preferential financing from the Japan Development Bank (JDB) as well as through a direct interest-rate subsidy — both of which are aimed at the construction of new ships. These two programs were supplemented in the 1960s by a reorganization plan for the industry. The principal points of these three programs may be summarized as follows:

1. Each year the Ministry of Transportation establishes the limit for authorized (JDB-financed) shipbuilding. Companies ordering approved ships are eligible for JDB construction financing. In FY 1982, container ships and LNG carriers could be 60-percent financed through the JDB, with 30 percent commercial bank financing and 10 percent owner-financing. For all other types of ships, the ratios are 50 percent, 25 percent and 25 percent. The advantage of JDB financing is somewhat lower interest rates and more favorable repayment terms (a ten-year repayment period beginning three years after launching, compared to eight years, effective as of launching, for commercial loans).

2. Besides access to favorable loans, shipping companies receive from the government an interest-rate subsidy, both on loans from the JDB and on commercial bank loans. These subsidy payments peaked at ¥15.3 billion ($64 million at current exchange rates) in FY 1972. The subsidy program was temporarily halted in 1975 (when the steep recession dried up demand for new ships), but was resumed in 1979. In FY 1981 the subsidies amounted to ¥6.5 billion ($27 million). A total of 42 companies received these subsidies in 1981 -- six of the seven large shipping companies plus 36 smaller companies.

3. In the early 1960s, during the heyday of high growth and government involvement in the economy, the government enacted a law that tied access to JDB loans and interest-rate subsidies to compliance with government guidance on industry consolidation. Companies that agreed to participate (the 42 companies receiving subsidies) were also allowed a one-time postponement of interest payments on loans from the JDB. For loans contracted prior to 1961, a five-year grace period was allowed on interest payments (unless corporate profits exceeded a 12-percent return on total assets). For loans from commercial banks, the postponement was conferred on one-half the interest payments.

In addition, domestic-flag vessels use Japanese crews and the coastal shipping industry is restricted to Japanese vessels. Another host of programs relates to promotion of efficiency in the coastal fleet, but these are not considered in this report. Compared to the size of the expenditures by the U.S. government, the Japanese subsidies seem small. Even at its height, the interest-rate subsidy was far below what the United States spent until recently in CDS, and still does in ODS. However, there are some important differences. The CDS program in the United States was designed to offset the disadvantage of building ships in high-cost U.S. shipyards. By the late 1950s, Japanese shipyards were already the lowest-cost in the world, giving Japanese shipping companies an added advantage. Since there is no operating subsidy provided to Japanese ship owners, the subsidy on the cost of vessels in practice helps to make up for the higher cost of operating ships with Japanese crews. The fact that subsidization has not prevented a considerable shift to flags of convenience suggests that the rather modest subsidies no longer fully compensate for that operating cost disadvantage.

Another difference between the two countries is that maritime policy in Japan was not focused on the liner segment of the shipping market; its industry is not skewed in that direction. Further, the Japanese system may have encouraged continued replacement of older ships, since the subsidy ends when the loans mature. Statistics showing Japanese vessels by age show a very sharp drop in Japanese-flag vessels older than 13 years, a drop that is much steeper than one would expect from just the growth in the fleet's size over time.

Current Bilateral Issues

The main issue between the two countries concerns liner conferences on trans-Pacific routes. Japanese liner operators have for many years, in consultation with the Japanese government, operated a system of joint space chartering and pooling on their trans-Pacific services. This meant that one company could charter space for shipments on another company's vessel, a plan intended to reduce what the government regarded as excessive competition. These plans received approval from the Federal Maritime Commission in the 1960s. Japanese members of the various trans-Pacific conferences are also known to vote as a bloc on conference matters. Complaints about these practices were brought before the Federal Maritime Commission by four U.S.-flag carriers, and the commission is now reviewing its earlier approval. Behind these complaints lies the fact that with the prolonged world recession, foreign trade has slowed and shipping companies are facing an increasingly competitive market as they struggle to keep their vessels loaded.

For this reason, the space charters and pooling arrangements may break down. Earlier this year, Mitsui O.S.K. Line announced that it planned to terminate its participation in the agreements. In addition to grappling with that threat, government and industry officials are also alarmed at the legislation now pending before Congress (H.R. 1878) that would alter the conditions for rate-setting and antitrust exemption in a way that the Japanese feel will increase the competitive position of the U.S.-flag carriers on the trans-Pacific routes. One possibility that is currently being considered by the Ministry of Transportation and the six involved companies is ending the space charter system and replacing it with a grouping of the six companies into three two-company sets, but no final decision has yet been reached.

Not only have there been some problems within the conferences, but some carriers have opted to terminate their membership and operate independently. Companies in the Far East Conference, a group of liner companies operating from the Atlantic and Gulf ports of the United States and the Far East, have faced stiff competition from "minibridge" shipments — freight moving by ship to West Coast ports and thence by rail to the East Coast. Since the conference has not had intermodal authority from the Federal Maritime Commission, several members have left the conference in order to better compete with the minibridge operators. This has now prompted the conference to file for intermodal authority with the FMC.

Yet another problem facing both countries is a new United Nations Code of Liner Conduct, produced by the United Nations Conference on Trade and Development

(UNCTAD). Under the proposed formula, cargo between pairs of countries would be subject to a 40-40-20 split: 40 percent each going to the shipping and receiving countries. The purpose of the code is to build the domestic-flag fleets of developing countries by giving them a guaranteed proportion of their own export and import trade. The Reagan administration has been opposed to this rule, while Japan as well as the European countries are prepared to accept it. The code is scheduled to go into force in October as more nations ratify it.

Conclusion

Maritime transportation remains a complex world of subsidies, cartels and strong national interests. Because the United States and Japan are high-wage countries, there has been a strong shift to flags of convenience, although the erosion has proceeded much further in the United States. Japan has done relatively better with less governmental presence; the subsidies have been lower and the requirements less restrictive.

Over the past decade, shipping companies worldwide have faced increased competition because of the slowed growth in merchandise trade and in transportation of bulk raw materials. This difficult market situation has meant that the cartel arrangements characterizing the liner portion of the industry are now coming unglued, and this process will continue to affect Japan and other U.S. trading partners over the next few years. If the new Maritime Act is passed this year, it will become another factor in the reshaping of the conferences.

The overall record of the maritime industry, despite occasional bilateral problems, is a good one. Even with the existence of cartels in the liner trade — which economists normally view with misgivings — competition in the industry shows every indication of being vigorous. In addition, technological change during the postwar period has been rapid — bringing the creation of container ships, roll-on/roll-off vessels, enormous bulk carriers, automated equipment and more efficient engines, all of which have reduced transportation costs and furthered the expansion of trade.

For further information, contact Edward Lincoln.

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Table 1

U.S. Exports to Selected Overseas Regions by Type of Shipping Service

(in millions of tons)

Year and Region	Total		Liner		Irregular		Tanker	
	Tons	% U.S. Flag	Tons	% U.S. Flag	Tons	% U.S. Flag	Tons	% U.S. Flag
1955								
Total	87.9	17.9%	27.7	36.9%	51.0	9.1%	9.2	10.0%
Far East	12.5	23.4	3.8	44.3	6.8	17.8	1.8	0.8
Atlantic	42.8	11.0	10.6	28.8	26.6	5.0	3.6	5.6
Mediterranean	14.9	18.8	2.7	46.0	12.0	12.8	0.1	1.7
1965								
Total	143.0	11.0	30.9	24.6	91.5	5.0	20.6	16.9
Far East	34.3	4.3	6.2	19.7	25.1	1.0	3.0	0.3
Atlantic	48.0	2.9	8.8	11.3	31.0	1.2	8.2	0.2
Mediterranean	26.1	9.9	3.2	24.0	20.1	5.9	2.7	22.6
1981								
Total	364.9	3.6	36.2	25.9	270.7	1.0	57.9	2.0
Far East	108.6	1.6	7.0	22.1	92.9	0.1	8.8	0.5
Atlantic	109.4	2.4	7.3	26.5	72.6	0.6	29.5	1.0
Mediterranean	61.7	4.0	3.2	30.6	49.7	2.4	8.8	2.8

Definitions: Total -- Total U.S. waterborne exports excluding Canada
Far East -- Japan and Korea
Atlantic -- European ports on the Atlantic and Baltic plus the United Kingdom, Ireland, Iceland and Greenland
Mediterranean -- Mediterranean and Black Sea ports.

Source: Department of Commerce, FT 985: U.S. Waterborne Exports and General Imports

Table 2

U.S. Imports from Selected Overseas Regions by Type of Shipping Service

(in millions of tons)

	Total		Liner		Irregular		Tanker	
Year and Region	Tons	% U.S. Flag	Tons	% U.S. Flag	Tons	% U.S. Flag	Tons	% U.S. Flag
1955								
Total	119.5	25.9%	17.5	39.9%	29.3	22.1%	72.7	24.1%
Far East	0.8	38.9	0.7	40.7	0.1	23.7	0.0	0.0
Atlantic	7.1	16.7	4.3	23.7	2.4	2.9	0.4	21.4
Mediterranean	6.6	9.9	0.9	46.8	0.7	24.0	5.1	1.6
1965								
Total	213.6	5.4	21.3	21.3	60.3	2.9	131.9	3.9
Far East	7.0	8.3	4.3	13.4	2.5	0.4	0.0	0.0
Atlantic	11.9	6.9	7.1	11.1	4.2	0.2	0.5	3.8
Mediterranean	9.2	5.2	1.3	31.8	1.3	1.7	6.6	0.7
1981								
Total	422.2	5.3	28.2	28.9	72.9	1.1	321.2	4.2
Far East	18.2	6.4	5.4	21.4	11.5	0.0	1.3	1.7
Atlantic	37.7	7.7	8.2	29.8	8.3	0.6	21.2	2.0
Mediterranean	42.8	3.1	2.5	28.6	2.9	0.0	37.4	1.6

Source: see Table 1

Table 3

Japan's Waterborne Trade

(in millions of tons)

Year	Exports		Imports	
	Tons	% Japanese Flag	Tons	% Japanese Flag
1955	7.7	43.6%	36.7	52.1
1960	11.1	52.4	87.6	47.5
1965	23.4	37.6	119.4	43.5
1970	41.0	38.6	467.8	44.6
1975	61.1	23.3	554.6	45.6
1981	77.7	21.5	567.4	36.6

Source: Ministry of Transportation, Un'yu Keizai Tokei Yoran and Nihon Kaiji Koho Kyokai, '82 Suji de Miru Nihon no Kai'un Zosen

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REPORT

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JAPAN'S GOVERNMENT AND PRIVATE-SECTOR RETIREMENT PROGRAMS

Summary

According to a recent survey by the Prime Minister's Office, the aging of Japan's population has accelerated, with annual growth in 1982 only 0.69 percent -- the lowest in postwar history. Data from the Population Problems Research Institute of the Ministry of Health and Welfare puts the ratio of the aged to the total population at 10.4 percent in 1985, rising from 9.5 percent in 1982. As this aging population begins to put pressure on retirement programs, there is an emerging concern over the reserves of both public pension systems and private-sector retirement schemes. The increase in longevity and the early formal retirement age will strain the benefits available under the public pension plan and under the private retirement allowance programs, which have depended on lump-sum payments. Consequently, the wider adoption of company pensions designed to compensate for the financial impact of retirement costs is expected to continue.

The Aging Society

New Population Findings — In 1981 the Population Problems Research Institute of the Ministry of Health and Welfare (MHW) released a revised population projection based on a rapid decline in the fertility rate and new life expectancy figures. The number of births per woman in Japan has dropped sharply, reaching 1.85 in 1976 and declining further to 1.74 in 1980. In 1980 the Japanese life span was 73.5 years for men and 78.9 years for women — an increase of almost 30 years since 1938, when the Ministry of Health and Welfare was established. Estimates put Japan's population (117 million in 1980) at 130 million in 2010, after which it will decline gradually, stabilizing at 118 million by 2075.

These changes indicate that the population 65 and older will increase from 10.6 million in 1980 to a peak of 28 million in 2020. The proportion of the aged to the total population, which was 9.1 percent in 1980, will gradually increase to 15.6 percent in 2000 — matching the 1980 ratios in European countries (14.9 percent in the United Kingdom, 15.0 percent in West Germany, 13.7 percent in France and 16.2 percent in Sweden). The composition of the aged in the total population will eventually exceed 20 percent (in 2015) and will peak at 22.1 percent in 2045. The working-age population, which is expected to climb until 1995, will taper off, so that instead of 7.5 persons in the working-age group supporting one retired person, by 2000, there will be 4.3 workers in the labor force for every retiree. As is shown in Table 1, Japan will be the oldest society in the world after the year 2010.

Problems Related to an Aging Population — Faced with the prospect of large numbers of departures from the labor force, the government would like to keep as many individuals working as possible, both to keep this group off the unemployment rolls and to reduce pension costs. A survey on employment management by the Ministry of Labor shows a hike in the number of companies that have introduced retirement-age extensions. Although in 1980 only 21.7 percent of all companies retired their employees as late as the age of 60, this figure had risen to 39.5 percent one year later. The government has targeted a uniform retirement age of 60 by 1985 and if this target is to be reached, companies will continue to revise the current seniority-based wage structure under which wages continue to rise with the length of service. Officials say the retirement allowance system, which provides for lump-sum payments that increase with the number of years worked, will also be reviewed.

The rise in the levels of employees retiring will have a substantial impact on pension systems as fewer contributors must support more recipients in the future. The alternatives will be to raise pension insurance premiums, reduce average pension payments, raise the age for pension eligibility, or some combination of these three options. Another age-related issue — medical care for this group — is of increasing concern. According to a report by the Health Ministry, general medical costs for the group 65 and over accounted for almost 33 percent of the national health program's total medical costs of $54 billion. As in all other countries, government-administered health insurance programs are facing large deficits, and these costs will inevitably swell as the aged become a larger percentage of society.

Government Pension Programs

*The 1980 pension data used here are based on a 1976 population estimate — the latest available figures. But because of the differences between these figures and new population estimates, the data may provide an overly optimistic view of the financial viability of the pension plans.

Discussions over reforms of the public pension system have concentrated on the impact of higher costs for employee pension payments, given the rise in the number of elderly. Table 2 shows the numbers of contributors and recipients to the Welfare Pension which covers private-sector employees. Contributors will increase from 24.7 million in 1980 to 32.1 million in 2025. Recipients will increase far faster than contributors, however, shooting up from 2 million in 1980 to 11.8 million in 2025. The ratio between contributors and recipients will fall from 12.4-to-1 to 3.0-to-1 by 2010. Economists in MHW calculate that the plan will be in deficit by 1998 and reserves will expire in 2006. The government has taken the position that the difficulties will require an increase in insurance premiums from the present 10.6 percent of monthly income to about 35 percent, and had planned to raise eligibility from 60 to 65 for men and from 55 to 60 for women, although strong opposition has forced a halt to this attempt.

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Table 3 shows the number of contributors and recipients to the National Pension Plan, which provides coverage for all citizens not included in other pension systems. Contributors will increase from 28.3 million in 1980 to 29.1 million in 1995, but will decline sharply thereafter. Recipients will increase from 5.2 million in 1980 to 8.4 million in 2000 and 9 million in 2010. The growth in the number of recipients of the National Pension Plan is smaller than those subscribing to the Welfare Pension Plan, because pension funds have been paid as a transitional measure even though the contributors were not enrolled for the required duration. This is reflected in the ratio between contributors and recipents, which was 5.4-to-1 in 1980, but is expected to fall to 3.0-to-1 by the year 2010 — the same ratio as in the Welfare Pension Plan. The Ministry of Health and Welfare has compared the income-to-payout ratio for the two plans and unlike the Welfare Pension, the National Pension Plan will not go bankrupt, though the size of the reserve will decline.

Official efforts to resolve these problems by government advisory councils, political parties and private research institutes have been numerous. The Nakasone cabinet has issued a statement in conjunction with the government administrative reform proposals of May 1983. The outline, reflecting popular opinion that two parallel systems are wasteful, calls for all public pension plans to be integrated by 1995.

Private-Sector Pension Programs

At present, Japanese companies normally pay retiring workers a lump-sum payment. Part of the amount is tax-free and the remainder is taxed separately from other income at a lower rate. These retirement payments, funded out of current income, represent a growing burden for corporations, which expect that the retirement allowance will triple in the next 10 years. As a result, a large number of corporations have considered reducing the amount paid to employees and/or leveling off the financial burden by introducing private pensions. Rapid growth in private pension funds is therefore anticipated as more corporations prepare for the anticipated rise in retirees and seek to protect the rights of workers entitled to pension benefits.

There are three types of private pension systems in Japan in addition to those administered by the government. The characteristics of the Tax-Qualified Pension Plan, the Adjusted Pension Fund and the Non-Tax Qualified Pension Plan follow:

- The Tax-Qualified Pension, which was inaugurated in 1962, permits corporations to deduct contributions to the pension fund as an expense for tax purposes. Corporations must satisfy certain government requirements and be approved by the Tax Administrative Agency. A minimum tax of 1 percent is paid on the fund's reserves. The management of the fund must be turned over to either a trust bank or a life insurance company. As of March, 1983, seven trust banks, one city bank specializing in trust business, and 20 life insurance companies were authorized to manage these funds. Of the total funds, 66 percent are managed by trust banks and 34 percent by life insurance companies.

- Payments into the second type of plan, the Adjusted Pension Fund, are also tax-deductible. Corporations are permitted to set up their own pension funds as part of the Welfare Pension Fund system, if management of this fund is entrusted to a trust bank or a life insurance company. A special corporate tax is imposed only on that part of the reserve which represents payments larger than pension contributions for government employees. Contributions by employers are deducted from the employee's income (in the case of the tax-qualified pension, the employees bear the full cost of the premiums.

- Non-tax Qualified Pensions are available to persons working for non-profit organizations or self-employed persons who do not qualify for either of the above types of pension plans.

Growth in the volume of pension funds entrusted to trust banks and life insurance companies has been rapid and is still more than 20 percent a year. The total volume of tax-qualified pension plans and adjusted pension funds rose from about $4 billion in 1973 to about $49 billion in 1982 (Table 4). Influencing this surge is the increased emphasis on retirement benefits and the expansion in the number of companies establishing trusts. Some 50 percent of all corporations responding to a survey confirm the trend, explaining that the introduction of pensions will make it possible to budget the costs over a period of years and guarantee employees the benefits of retirement. From management's point of view, the pension system is also attractive because the tax treatment of contributions to externally-managed pension trusts are more favorable than their own pension funds. The Central Labor Relations Commission reports that 75 percent of all pension systems were introduced by management.

For employees, the benefits are obvious and will improve the pension funds both in terms of security and flexibility. Because reserves are entrusted to specialized investment banks and are administered under government guidelines, the principal is secure. Retirees are often permitted to choose whether they prefer a lump-sum payment or a pension. In the case of lump-sum retirement allowances, payment is not guaranteed; employees may not receive an allowance if the company declares bankruptcy.

The Adjusted Pension plans provide benefits until death, while the tax-qualified pension can be either lifelong or for a limited number of years. According to a 1981 survey by the Ministry of Labor, 11.0 percent of corporations have lifetime tax-qualified pensions and [illegible]0.4 percent have 10-year pensions. The average monthly pension payment for college graduates was ¥97,000 (about $400), which corresponds to 25.8 percent of the monthly wage.

As Table 4 shows, the growth of funds has been declining. An important factor in this drop is that private pension systems are still immature and began from a very low base. The number of new contributors is expected to slow down considerably because of the large number of companies that have set up pension funds. However, recipients are expected to continue to increase faster than contributors given the immaturity of the pension systems and the growing number of employees who will reach retirement age.

Since the growth rate will still be high, though, payments into the funds will continue to rise. The Mitsubishi Trust Bank estimates that the total outstanding value of tax-qualified pensions and adjusted pensions will increase to $125 billion in 1992 and $167 billion in 1995. As these figures indicate, pension funds have a considerable impact on the financial market. Government guidelines call for a minimum of 50 percent to be invested in assets for which the principal is guaranteed, 30 percent or less in stocks and no more than 20 percent in real estate. A May 1979 authorization allows investment in foreign currency-denominated securities to the extent of 10 percent or less of total assets.

The package of securities has changed in the last decade, with that proportion invested in loans down from over 70 percent to less than 30 percent. The portion of portfolios held in bonds has increased from virtually zero to 40 percent. These shifts represent slowing economic growth and the government's large borrowings, and are expected to continue to attract investors.

As more employees participate in private pension systems, the amount of retirement money paid will rise considerably, and it is possible that the cost of retirement pensions will become a serious issue. Consequently, measures to further stimulate the introduction and enlargement of private pension systems should be considered, and as an incentive, taxes on private pension plans eliminated. The disparity between the taxes on lump-sum retirement allowances and pension payments, analysts agree, should also be corrected.

Conclusion

In planning for the 65-and-over population, it is quite natural that the government pension system will play the more important role. Both the introduction of inflation-adjusted payments in 1973 and the adoption of a more liberal base income estimate raised the level of pension payments. Because recipients are expected to increase, however, it will be very difficult for the government to continue to raise payments. Based on current estimates, the role of the private pension system will become more important as a supplement to public pensions. A report by the general counsel of the Japan Trade Unions calls for a suggested level of pension payments at 60 to 70 percent of pre-retirement income. The Japanese Confederation of Labor says that private-sector payments should cover more than 15 percent of the average income before retirement. Measures to further promote the private pension system may be necessary.

For further information, contact Yoshio Nakamura.

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Table 1: Ratio of Population 65 Years and Older to Working-Age Population

	1950	1960	1970	1980	1990	2000	2010	2020	2025
Japan	8.3%	8.9%	10.3%	13.4%	16.6%	23.3%	29.9%	35.5%	34.6%
Sweden	15.5	18.1	20.9	25.2	26.6	24.9	27.5	32.9	33.6
Italy	12.6	14.2	16.4	20.9	21.8	25.7	27.7	30.9	33.6
W. Germany	14.0	16.0	20.7	22.7	20.1	22.8	28.5	30.0	32.0
Belgium	14.1	16.5	19.0	22.0	22.7	21.9	24.5	27.9	31.2
England	16.0	17.9	20.6	23.1	23.2	23.1	23.3	27.1	29.1
France	17.3	18.8	20.7	21.4	19.7	22.0	21.4	27.0	29.5
USA	12.5	15.5	15.9	16.2	17.6	16.9	17.0	21.9	25.0

Note: Working-age population is defined as those 15-64 years old.

Source: Ministry of Health and Welfare.

Table 2: Contributors and Recipients of Welfare Pension Plan
(in millions)

	Contributors (A)	Recipients (B)	(A)/(B)
1980	24.7	2.0	12.4
1985	26.4	3.3	8.1
1990	27.7	4.6	6.0
1995	29.1	6.1	4.7
2000	30.3	7.7	4.0
2005	31.1	9.1	3.4
2010	31.0	10.5	3.0
2025	32.1	11.8	2.7

Source: Ministry of Health and Welfare.

Table 3: Contributors and Recipients of National Pension Plan
(in millions)

	Contributors (A)	Recipients (B)	(A)/(B)
1980	28.3	5.2	5.4
1985	28.8	6.8	4.2
1990	28.9	7.8	3.7
1995	29.1	8.3	3.5
2000	29.0	8.4	3.4
2005	28.2	8.6	3.3
2010	26.9	9.0	3.0
2025	27.4	8.8	3.1

Source: Ministry of Health and Welfare.

Table 4: Private Pensions Entrusted to Trust Banks and Life Insurance Companies
(in billions of yen)

	Tax-Qualified Pension Plan		Adjusted Pension Fund		Total	
	Amount	Growth	Amount	Growth	Amount	Growth
FY 1970	¥275.8	40.7%	¥187.1	86.4%	¥462.9	56.2%
1971	375.1	36.6	314.8	73.6	689.9	49.0
1972	478.7	27.6	486.5	54.5	965.2	39.9
1973	613.1	28.1	713.7	46.7	1,326.8	37.5
1974	808.3	31.8	1,032.5	44.7	1,840.8	38.7
1975	1,040.1	28.7	1,437.9	39.3	2,478.0	34.6
1976	1,314.8	26.4	1,936.3	34.7	3,251.1	31.2
1977	1,632.8	24.2	2,535.7	31.0	4,168.5	28.2
1978	2,008.2	23.0	3,208.8	26.5	5,217.0	25.2
1979	2,478.4	23.4	3,997.0	24.6	6,475.4	24.1
1980	3,052.3	23.2	4,922.8	23.2	7,975.1	23.2
1981	3,706.6	21.4	6,031.2	22.5	9,737.8	22.1
1982	4,452.0	20.1	7,308.4	21.2	11,760.4	20.8

Sources: Trust Company Association of Japan;
Life Insurance Association of Japan.

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REPORT

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Cabinet Proposes 6.9-Percent Ceiling on Japan's Defense Spending

Constrained by its goal of pruning bulging government deficits, the cabinet of Prime Minister Yasuhiro Nakasone last week announced its decision to place a 6.88-percent cap on fiscal 1984's defense spending increase — a decision which was controversial on both sides of the Pacific. In view of the fact that the general framework of fiscal 1984 budget requests called for a cut in discretionary government expenditures of 10 percent below the current fiscal budget (see JEI Report No. 26B, July 15, 1983), the other ministries

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January-May 1982	January-May 1983	March 1983	April 1983	May 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 5,233	$ 9,847*	$ 2,856*	$ 2,755*	$ 2,708*
Exports (f.o.b.)	149,522	137,663	58,540	56,846*	12,962*	12,054*	11,478*
Imports (f.o.b.)	129,555	119,584	53,307	46,999*	10,106*	9,299*	8,770*
Current Account Balance	4,770	6,850	-203	5,371*	1,913*	2,300*	1,655*
Long-Term Capital (net)	-9,672	-14,969	-8,352	-5,195*	-2,205*	-2,033*	-71*
Overall Balance	-2,144	-4,971	-5,203	685	597	-1,055	2,048
International Reserves (end of period)	28,403	23,262	26,543	24,484	24,015	24,272	24,484
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	260	5,577*	2,033	2,026	1,813*
Exports (f.o.b.)	152,030	138,831	59,369	57,113*	13,002	12,203	11,645*
Cars	18,445	18,015	7,817	8,142*	1,415	1,830	1,654*
Steel	16,669	15,645	6,934	4,980*	1,140	1,002	1,018*
Imports (c.i.f.)	143,290	131,931	59,109	51,536*	10,969	10,177	9,832*
Crude Oil	53,343	46,274	21,609	17,569*	3,791	3,346	2,721*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	5,031	5,663*	1,268	1,545	1,145*
Exports (f.o.b.)	38,609	36,330	15,431	15,251*	3,253	3,410	3,237*
Imports (c.i.f.)	25,297	24,179	10,400	9,588*	1,985	1,865	2,091*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥239.40	¥237.70	¥238.30
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-7,926	-7,724	-1,659	-1,328	-1,914
Exports (f.a.s)	21,823	20,966	8,639	8,105	1,781	1,752	1,547
Industrial Supplies	8,983	9,173	3,978	3,474	755	838	585
Food and Feed	5,896	4,971	1,953	1,991	407	416	415
Capital Goods	4,767	4,434	1,733	1,713	412	325	368
Consumer Goods	1,318	1,356	560	565	126	118	108
Imports (Customs)	37,612	37,744	16,564	15,829	3,440	3,080	3,461
Automotive Products	12,950	12,890	5,642	5,872	1,282	1,002	1,401
Industrial Supplies	7,179	6,795	3,271	2,115	452	414	444
Consumer Goods	8,340	7,842	3,338	3,097	688	665	586
Capital Goods	8,589	9,530	3,972	4,477	962	940	975

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-April 1982	January-April 1983	February 1983	March 1983	April 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	10.3%	7.6%	7.4%	7.6%	7.6%
Industrial Production	1.0%	0.3%	2.5%	-0.4%	-1.3%	-0.1%	1.1%
Manufacturing Operating Rate	-4.6%	-2.6%	-1.9%	-2.5%	-3.7%	-1.6%	-1.6%
Number of Bankruptcies	-1.5%	-2.8%	-2.9%	4.4%	4.7%	10.3%	0.8%
Residential Construction Starts	-9.2%	-0.5%	-6.0%	2.0%*	5.2%	-7.0%	-3.8%*
Job Openings to Applications (ratio)	0.68	0.61	0.65	0.60	0.59	0.61	0.60
Nominal Wages	5.3%	4.5%	5.0%	5.2%	5.9%	5.3%	3.8%
Labor Productivity	3.5%	1.6%*	2.9%	n.a.	n.a.	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.5%	-1.1%	-0.7%	-1.4%	-2.2%
Consumer Prices	4.9%	2.7%	3.0%	2.1%	1.9%	2.3%	2.0%
Yen-Based Export Prices	1.2%	3.9%	7.3%	-5.5%	-5.5%	-6.2%	-6.6%
Yen-Based Import Prices	1.6%	7.9%	8.8%	-2.0%	-0.3%	-4.0%	-6.1%

*Preliminary

For Japan's most recent GNP data, see JEI Report No. 25B, July 1, 1983.

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REPORT

No. 30A

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U.S.-JAPAN COMPETITION IN SEMICONDUCTORS

Summary

The current debate over industrial policy has, to a large extent, been shaped by American manufacturers of semiconductors. They have long maintained that U.S. preeminence in the field is in jeopardy because of "an extensive, long-range program developed, orchestrated, and partially financed by the Japanese government to propel its semiconductor industry to world leadership." The effects of Japanese targeting have already shown up in the erosion of the domestic industry's competitiveness in one critical product -- computer memory chips, spokesmen assert. Without help from the U.S. government and changes in the way the Japanese industry operates, say representatives of the U.S. industry, American makers' international position in other key product lines could be undermined as well. Domestic makers have suffered reverses in memory products, but these setbacks are neither necessarily permanent nor the result of targeting, this report indicates.

Introduction

For the past five years, American manufacturers of semiconductors for the merchant market have been admonishing policymakers and legislators that the United States risks losing world leadership in integrated circuits and discrete devices to Japan unless Washington helps to reverse the odds. These warnings were underscored in February 1983 when the Semiconductor Industry Association (SIA) released The Effect of Government Targeting on World Semiconductor Competition: A Case History of Japanese Industrial Strategy and the Costs for America, a study purporting to document a decade-long effort by the Japanese government to catapult the domestic semiconductor industry into a position of technological preeminence.

In broadbrush terms, SIA's version of the competitive threat posed by Japan's semiconductor industry runs like this. Through government financial support, cartelization and domestic market protection, Japanese makers were able to achieve technological parity with their American rivals in the key product area of high-density dynamic random access memories (RAMs), the primary type of metal-oxide-silicon (MOS) memory chips. In the late 1970s, these companies launched a big export push in RAMs "characterized by an extremely rapid increase in the volume of devices sold and price reductions so steep that non-Japanese firms could not match them profitably." In quick order, this drive first netted Japanese vendors a major share of the world market for third-generation RAMs — 16-kilobit RAMs — and then landed them a dominant position in the 64K RAM marketplace. Hard hit by Japan's high-volume, low-price RAM export strategy, U.S. semiconductor manufacturers suffered large financial losses in both 1981 and 1982.

In the SIA scenario, the effect of an unchecked Japanese sales drive in memory chips is clear. "A commanding Japanese market share in dynamic RAMs will be translated quickly into higher production volume, corresponding cost advantages and an increasing technological edge as Japanese firms, building on this advantage, move on to take over other semiconductor product lines. At that point, U.S. firms will be in second place, and falling further behind."

At first glance, the SIA appears to be crying wolf. After all, American companies still supply roughly two-thirds of the worldwide semiconductor market — a market pegged at $14.6 billion in 1982, while their Japanese competitors have perhaps half that stake. Similarly, the share of Japan's apparent semiconductor consumption served by U.S. exporters is nearly double the 5-percent-plus part of American consumption filled by Japanese suppliers. Moreover, MOS memories account for less than one-fifth of worldwide semiconductor sales and RAMs make up only part of that market segment. Equally important, U.S. producers remain the technology and market leaders in cutting-edge microprocessors and the peripheral chips used with them, bipolar logic circuits, custom and semicustom chips, and non-RAM MOS devices like erasable programmable read-only memories (EPROMs).

Despite these facts, the U.S. semiconductor trade group maintains that there is real cause for alarm about U.S. leadership in semiconductors. High-volume RAMs, as one company executive noted, have traditionally been the American industry's "cash cows," providing the profits to finance ever-increasing research and development costs and capital spending requirements in this and other semiconductor product lines. "The recent Japanese high-density RAM success . . . threatens to break the cycle of 'investment/marketplace success/profits/reinvestment' that has propelled the U.S. industry to world leadership," the SIA argues in its white paper. In addition, U.S. manufacturers point out, the technology mastered in turning out RAMs can be transferred to almost every device in a company's product lineup, making a forced retreat from RAMs a double threat to American technological superiority. They insist as well that Japan's export push in high-density memories is not an isolated episode; it "represents an initial salvo in a competitive challenge to the U.S. semiconductor industry similar to those which Japan has mounted in other key industries."

This report will look at U.S.-Japan competition in the American market for 16K and 64K RAMs, as well as where the two industries stand in the upcoming battle for leadership in the next-generation RAM market. It will also touch on the political response of domestic manufacturers to the inroads of the Japanese challengers. This study builds on an earlier three-part series (see Council Report No. 41, December 7, 1979;

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No. 4, January 24, 1980; and No. 9, March 7, 1980) that covered production and trade trends in the U.S. and Japanese industries, their structure and domestic markets, comparative capital investment and research and development, and market-access problems in Japan.

Japanese Gain Market Foothold

U.S. semiconductor makers have to shoulder a large part of the responsibility for letting their Japanese rivals get a foothold in the American MOS memory market. When semiconductor orders hit the skids during the 1975 recession, the industry slashed capital spending, cutting it in half according to some estimates. Companies also pared their work forces quickly and deeply. Japanese manufacturers, in contrast, continued to add capacity and invest in new equipment over the course of the recession, with an eye on remaining competitive in the computer, telecommunications and other end-equipment markets they supply as vertically integrated producers.

Semiconductor shipments in the United States roared back from the recession in 1976 and gathered more steam the next year, spurred partly by initial volume production of 16K RAMs for the merchant market. Computer industry demand for the new memory chip took off in 1978 when it reached price-per-bit equivalency with the 4K RAM. Moreover, International Business Machines Corp. unexpectedly entered the merchant market with substantial requirements for 16K RAMs to make up for shortfalls in in-house production of 64K RAMs earmarked for its new generation of medium-capacity mainframes. With U.S. 16K RAM demand expanding so rapidly, inadequate domestic production capacity soon became a major bottleneck. Nippon Electric Co., Ltd., Japan's top semiconductor maker, and number-two Hitachi, Ltd. quickly jumped into the gap. In short order, they plus Fujitsu, Ltd. captured 36 percent of the U.S. 16K merchant market — a stake that expanded to a 42-percent share in 1979.

The loss of that much of the high-volume RAM market was bad enough, but what really angered 16K RAM production leader Mostek Corp. and other leading merchant MOS memory makers like Motorola Inc., Intel Corp. and National Semiconductor Corp. were the alleged pricing policies of their Japanese competitors. In late 1977, when NEC and Hitachi were just moving into the U.S. memory market, 16K RAM prices were running between $16 and $18, with expectations that late 1978 prices would be around $10 a chip; instead, prices fell to about $6. To some SIA members, this drop smacked of predatory pricing by Japanese exporters, which were said to be not only setting their prices 20 to 30 percent below American vendors but also dumping to win market share.

With falling prices pushing demand up in 1979, a number of early U.S. 16K RAM market entrants brought additional capacity onstream and several American latecomers started turning out the memory chip. This new capacity moved into volume production in early 1980 — just as IBM, the biggest 16K RAM buyer, scaled back its purchasing plans for the year and several other American computer makers cancelled some of their orders. Prices, which had stabilized at roughly $6 in 1979 because of excess demand, abruptly began to slide, hitting about $3.50 at midyear.

The worst was yet to come. Orders for 16K RAMs slowed in the second half of 1980 as the recession started to trim the rapid growth of the data-processing industry and other end-user markets, and demand continued to fall far short of worldwide capacity into 1981. Anxious, however, to recover their equipment and R&D costs, American makers, particularly the latecomers, pumped out an increasing number of chips; so, to a lesser extent, did Japanese manufacturers. The result was predestined: 16K RAM prices collapsed in the first part of 1981.

While producers in Japan and at least one leading U.S. memory supplier began to pull back from the market after midyear, most domestic makers rode with the 16K RAM, hoping that rockbottom prices would spur demand. They did. U.S. shipments soared in 1981's third quarter and then flattened out at near-record levels for the rest of that year and 1982. But the decision to stick with the price-eroded 16K RAM proved to be a costly one for American companies. According to the SIA's report, Mostek, Motorola, Intel, National Semiconductor and Advanced Micro Devices Inc. ran up a $39.9-million loss on their 16K RAM operations in the first nine months of 1982 on top of a net loss of $26.5 million in 1981. The association, of course, attributes this red ink to Japanese pricing practices rather than to the cutthroat competition among these five makers and other U.S. vendors to extend the life of the 16K RAM.

Battleground Moves to the 64K RAM Market

With one major exception, U.S. merchant MOS memory makers had no choice but to stick with the price-eroded 16K RAM. They had not planned it that way. Seven months after Fujitsu's February 1978 introduction of the first 64K RAM for the merchant market, Texas Instruments Inc., historically the number-one U.S. semiconductor maker, announced its own version. In quick succession, Mostek and Motorola unveiled plans to produce the new-generation memory chip. During 1980, other American companies, including Intel, National Semiconductor and Fairchild Camera and Instrument Corp. began readying sample 64K RAMs for evaluation by major computer manufacturers and other big original equipment manufacturers.

The 64K RAM proved to be much more difficult to design and manufacture than American semiconductor firms had anticipated. Companies like Mostek and National Semiconductor, which opted to advance the state of the art with an eye on perfecting technologies applicable to the production of future generations of RAMs as well as the 64K RAM, ran into formidable manufacturing problems. Final yields — the number of usable chips per wafer processed — were said by outside observers to vary from a mere 5 percent down to no usable chips. Even some makers that decided to finetune the product and process technologies they had used to manufacture 16K RAMs had trouble obtaining acceptable yields in volume production. Intel, for example, had to pull its original 64K product from the market in late 1980 and start over. Texas Instruments, too, hit manufacturing roadblocks that put its market entry at least a year behind schedule. Only Motorola was able to deliver 64K RAMS at an early date, apparently because it committed money to the chip before others did.

By late 1981, U.S. semiconductor industry analysts were starting to write American companies off as nothing more than supporting players in the merchant 64K RAM market. At that time Motorola and Texas Instruments were the lone U.S. merchant makers offering the circuit in production quantities. Arrayed against them were six Japanese manufacturers — Hitachi, Fujitsu, NEC, Mitsubishi Electric Corp., Oki Electric Industry Co., Ltd. and Toshiba Corp. These companies managed to sidestep the problems that delayed volume 64K RAM production at Mostek, National Semiconductor and Intel, primarily by modifying and refining the design and manufacturing technologies incorporated in their 16K products. This strategy, which led to acceptable yields early on, gave Japanese vendors 60 percent of the worldwide merchant market in 1980 and a 70-percent stake in the 1981 market, including one-half to two-thirds of U.S. sales in those two years.

Early market dominance by Japanese suppliers was not as ominous for American companies as it first appeared. Worldwide 64K RAM shipments added up to only 441,000 units in 1980, primarily for vendor qualification, and 1981 shipments, while totaling 12 million circuits, were dwarfed by 16K RAM sales of perhaps 215 million units that year. The 64K RAM market, in short, developed very gradually, far more slowly than the markets for earlier generations of RAMs. This reduced or even eliminated the penalty for being late.

The reason the market emerged so slowly is not hard to find. With 16K prices sliding through 1980 and then collapsing in early 1981, manufacturers, whether Japanese or American, thought twice about expanding production of 64K RAMs, afraid that plummeting 16K prices would pull down 64K prices and rob them of the chance to recoup development costs. For their part, computer makers had no incentive to buy 64K RAMs, given the prices of 16K RAMs. To be competitive, 64K RAMs could be priced only four times more than their predecessors, plus a premium for the technical advantages of greater density. No bargain before 16K RAM prices collapsed, 64K RAMs, priced in early 1981 at about $20 a circuit for volume orders, were no more attractive after 16Ks started selling for $1.50 and under.

Prices for the new chip finally started moving toward what users considered acceptable levels in 1981's second half as Japanese makers, followed in lock step by Motorola and Texas Instruments, gradually began to put more 64K RAM capacity in operation. By year-end, 64K prices crossed over into the bargain range and the market took off with a roar. Price quotes, however, continued to come down through the first quarter of 1982 before firming at the $5.50-to-$6 level for high-speed devices in volume. Why prices firmed is the subject of much controversy. Hitachi and Fujitsu, then the two major Japanese players in the U.S. market, maintained that demand in the United States and at home was increasing faster than they could increase production. Some American semiconductor executives and industry watchers charged instead that Japanese exporters were deliberately holding back U.S-bound shipments to mute a rising chorus of complaints about dumping. (This interpretation received an unexpected boost from the Justice Department, which launched a restraint-of-trade inquiry into Japanese sales in mid-1982 — see JEI Report No. 30B, August 6, 1982.) Motorola was particularly outspoken about Japanese pricing practices, claiming that its competitors were intentionally dropping prices quicker than costs were coming down in an effort to buy market share.

The emergence of a buyer's market in the spring of 1982 dampened talk about dumping. It also gave American latecomers to the 64K RAM market the reprieve they needed. Mostek moved into volume production early in the year, while Intel started turning out commercial quantities of its redesigned chip part way through 1982, followed later by Fairchild. National Semiconductor, alone among the major U.S. companies to announce early availability of 64K RAMs, failed to get on board because of insurmountable yield problems with its new technology. (These problems, well-publicized, plus the start-up troubles that delayed Mostek's and Intel's market entry, undercut SIA's attempt to link losses of $30.5 million in 1981 and $46.6 million in 1982 on the 64K RAM operations of its sample companies to Japanese pricing policies.)

With the newcomers gearing up production in 1982 and established suppliers bringing additional capacity onstream, 64K RAM prices again came under pressure during the latter part of the year, despite what seemed to be recession-proof demand from small computer and mainframe manufacturers in both countries. This past spring, however, the market underwent another of its periodic flip-flops. The U.S. personal computer industry's appetite for memory, already voracious, became virtually insatiable. In Japan, too, demand for 64K RAMs exploded, both in-house from the companies' computer divisions and outside. Lead times for delivery in the United States, which had been running approximately six to eight weeks at the start of 1983, stretched to about three or four months in March for top suppliers and then to roughly six months in June. More importantly for memory manufacturers, prices on volume orders for high-speed 64K RAMs rose from under $4 in April to above $5 at midyear.

With prices firming and then turning up this year, the 64K RAM finally became a consistently profitable item for suppliers, U.S. industry analysts say. MOS memory makers in the United States as well as in Japan will need to wring all the money they can from the chip to underwrite the huge ($50 to $100 million minimum per company) R&D and equipment costs of the next RAM generation, the 256K. So far at least, the leading U.S. merchant memory makers seem to have come up with the funds needed to bring the new circuit to the market, despite profit margins eroded by declining memory prices and recession-dampened demand for some other semiconductor products.

In fact, overall semiconductor R&D and capital spending in the United States has been unusually strong in recent years, even during the recession. Plant and equipment expenditures, for example, rose sharply during the late 1970s and then jumped in 1980. Determined not to repeat the mistake they made during the 1975 slump, U.S. semiconductor makers maintained 1980's high level of capital investment through 1981. They had hoped to duplicate this feat again last year, but weak prices and the recession dashed these plans. Still, capital spending was off only modestly — perhaps 10 percent — from the 1980-81 peak.

Aside from worrying about financing escalating equipment and development requirements out of weak profits, U.S. semiconductor makers were looking nervously over their shoulders at what their Japanese rivals were doing. What they saw was disquieting. Like American firms, Japanese manufacturers significantly expanded capital spending during the late 1970s, and they continued to do so in both 1981 and 1982. By fiscal 1982 (April 1982-March 1983), as a result, investment in yen terms was almost three times higher than five years before. Equally frightening to U.S. companies, Japanese semiconductor producers spent almost as much on plant and equipment in FY 1982 as American merchant makers did last year. Moreover, the six firms that compete in the world MOS memory market invested the equivalent of 20.3 percent of their overall sales in plant and equipment in FY 1982, compared with 13.7 percent in FY 1978, while capital spending by leading U.S. merchant companies averaged an estimated 15 percent of sales last year, down two points from 1981.

The 256K RAM: Replay of the 64K Battle or a New Ballgame?

Depending on which industry analyst one listens to, Japanese manufacturers of memory chips will be unable to repeat their 64K RAM success in the emerging market for 256K RAMs because of the design strategy they adopted for the present-generation product or, alternatively, American companies, unwilling or unable to risk a replay of the 64K RAM debacle, will not even be at the starting gate for the upcoming race. Neither scenario pans out at the present time.

Analysts pushing the first scenario argue that Japanese semiconductor companies will be at a competitive disadvantage in the 256K RAM market because they will have to go back to their design rooms and come up with new product and process technologies suitable to the denser chip and then iron out manufacturing problems. Japanese manufacturers, in short, will have to do what Mostek and other U.S. memory makers did with the 64K RAM. The drawback of this line of reasoning is that it ignores the fact that Japanese producers started work on alternative 256K RAM technologies several years ago. These technologies, some quite novel, are showing up in the samples that Fujitsu, NEC and other Japanese suppliers are now shipping to customers. Of course, it is too soon to know whether the new designs and processes will work in volume production, but American companies will not necessarily make a problem-free switch to volume production of the 256K RAM just because they use the same or similar technologies to turn out 64K RAMs.

It is also too soon to count U.S. memory makers out of the 256K race, as the second scenario suggests. So far at least, there have been no official dropouts. On the contrary, Mostek says it plans to ship 256K RAMs "for revenue" this year, while Motorola and Texas Instruments are expected to start sampling this quarter, followed in the fourth quarter by Intel. In addition, National Semiconductor, which maintains that it has licked the manufacturing problems that kept it out of the 64K RAM market, plans to ship out samples in 1984's first half. Advanced Micro Devices also says it will jump back into the high-density RAM market, starting with a fast 64K device this year and a 256K counterpart in 1985.

The 256K product announcement that is causing the biggest stir in the industry, though, comes not from existing suppliers but from Western Electric Co., Inc. American Telephone and Telegraph Co.'s manufacturing arm revealed this past spring that the first product it will offer in its initial foray into the merchant semiconductor market is a 256K RAM. The company, which is already manufacturing the device in commercial quantities for in-house use, is presently sending samples to potential outside customers. Volume production for the merchant market is scheduled to start this summer, with shipments beginning later in the year.

Western Electric's planned timetable could resolve the major dilemma facing current merchant market participants: when to ramp up production of 256Ks. Up to now, vendors have been afraid that early volume availability of the next-generation chip would pull down 64K prices just when the part is finally starting to make money for them. At the same time, manufacturers insist they will not hold the 256K RAM back to extend the life of the 64K RAM.

Even if semiconductor companies do go ahead with volume 256K output later this year, the market for the new circuit is not expected to take off until 1986 when it reaches price-per-bit equivalency with the 64K RAM. Until then, it is too risky to bet whether Japanese makers will repeat their 64K RAM success, including their capture of a 70-percent worldwide market share again in 1982, or whether American suppliers will regain control of the memory market.

SIA Keeps Up the Pressure

Although the semiconductor business is once again booming, providing merchant makers with a needed influx of money for R&D and new plant and equipment, the Semiconductor Industry Association has not abandoned its five-year-old political campaign. Member companies continue to lobby the White House and Capitol Hill for changes in U.S. tax policy, particularly with respect to equipment write-offs and R&D credits, to offset part of the unfair competitive edge they believe their Japanese rivals receive through government financial assistance. They also continue to press the Reagan administration for retaliatory action against the effects of Japanese government targeting policies.

The initial focus of this effort was the "buy-in" pricing of Japanese semiconductor exporters in the American 64K RAM market. This angle has been quietly dropped, replaced by a new bid for action to improve the access of U.S. suppliers to the semiconductor market in Japan. So far, however, the SIA has been unwilling to take the final plunge and file a complaint under Section 301 of the 1974 Trade Act.

Twice this year, the group's board of directors has backed away from the brink. The first time, in February, the board, after failing to reach internal agreement on going the trade-complaint route, said it preferred to give the Reagan administration more time to resolve the market-access issue through bilateral negotiations. In pulling back again in mid-July, board members cited the "favorable results" of recent discussions between U.S. government trade officials and their Japanese counterparts. During these talks, held under the auspices of the U.S.-Japan Work Group on High-Technology Industries (see JEI Report No. 43B, November 5, 1982), the Japanese side agreed to participate in a program to monitor merchant sales of semiconductors. It also promised to develop "concrete measures" to open the domestic market to American semiconductor suppliers.

For further information, contact Susan MacKnight.

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Table 1: U.S. Apparent Domestic Consumption of Semiconductors, 1978-82

(in thousands of dollars)

	1978	1979	1980	1981	1982
Total Shipments	$5,511,356	$7,200,640	$9,088,862	$9,634,560	n.a.
Total Exports	1,933,186	2,609,036	3,446,692	3,579,131	3,797,368
Total Imports	1,766,266	2,417,608	3,309,760	3,559,670	4,127,661
Trade Balance	166,920	191,428	136,932	19,461	-330,293
Apparent Domestic Consumption	5,344,436	7,009,212	8,951,930	9,615,099	n.a.
Exports as Percent of Apparent Domestic Consumption	36.2%	37.2%	38.5%	37.2%	n.a.
Imports as Percent of Apparent Domestic Consumption	33.1%	34.5%	37.0%	37.0%	n.a.
Exports to Japan as Percent of Apparent Domestic Consumption	2.0%	2.5%	1.7%	1.8%	n.a.
Imports from Japan as Percent of Apparent Domestic Consumption	2.5%	3.5%	4.4%	4.0%	n.a.

Source: Derived from following tables.

Table 2: Japan's Apparent Domestic Consumption of Semiconductors, 1978-82*

(in thousands of dollars)

	1978	1979	1980	1981	1982
Total Production	$2,531,469	$2,906,151	$3,810,509	$4,838,714	$4,796,507
Total Exports	476,805	760,274	1,084,366	1,242,041	1,430,738
Total Imports	385,206	572,730	615,155	696,575	649,982
Trade Balance	91,599	187,544	469,211	545,466	780,756
Apparent Domestic Consumption	2,439,870	2,718,607	3,341,298	4,293,248	4,015,751
Exports as Percent of Apparent Domestic Consumption	19.5%	28.0%	32.5%	28.9%	35.6%
Imports as Percent of Apparent Domestic Consumption	15.8%	21.1%	18.4%	16.2%	19.4%
Exports to the United States as Percent of Apparent Domestic Consumption	4.7%	8.8%	10.9%	9.1%	13.5%
Imports from the United States as Percent of Apparent Domestic Consumption	9.1%	14.0%	10.3%	8.4%	9.2%

*Neither Japan's production data nor its trade data include parts.

Source: Derived from following tables.

Table 3: U.S. Shipments of Semiconductors, 1978-81

(in thousands of dollars)

	1978	1979	1980	1981(p)
Integrated Circuits	$3,537,763	$4,716,580	$6,605,666	$6,764,450
Linear	406,036	463,028	685,442	799,858
Digital Bipolar	1,153,318	1,529,858	2,053,370	1,962,852
Microprocessors	19,123	36,999	57,212	61,080
Transistor-Transistor Logic	550,876	926,140	1,286,449	1,059,607
Other	583,319	566,719	709,709	842,165
Digital MOS	1,536,687	2,127,902	3,188,474	3,274,654
Microprocessors	269,145	485,709	754,847	754,081
Logic	322,498	398,357	622,879	816,332
Memory	945,044	1,243,836	1,810,748	1,704,241
Hybrid	441,722	595,792	678,380	727,086
Discrete Devices	1,289,768	1,542,718	1,608,867	1,828,480
Transistors	507,902	571,343	599,673	674,798
Diodes and Rectifiers	439,367	499,569	490,114	527,752
Other	342,499	471,806	519,080	625,930
Parts	683,825	941,342	874,329	1,041,630
Total Shipments	5,511,356	7,200,640	9,088,862	9,634,560

Source: U.S. Department of Commerce, Bureau of the Census, Current Industrial Reports: Selected Electronic and Associated Products, Including Telephone and Telegraph Apparatus (MA-36N)

Table 4A: Total U.S. Exports of Semiconductors, 1978-82

(in thousands of dollars)

	1978	1979	1980	1981	1982
Integrated Circuits	$471,932	$650,056	$833,476	$768,410	$836,261
Linear	88,648	111,285	130,185	110,465	113,228
Digital Bipolar	79,106	99,499	137,656	128,505	133,320
Logic	n.a.	n.a.	n.a.	104,549	97,501
Memory	n.a.	n.a.	n.a.	23,956	35,819
Digital MOS	220,762	318,667	404,790	352,201	413,265
Microprocessors	n.a.	n.a.	n.a.	78,355	91,749
Logic	n.a.	n.a.	n.a.	92,226	131,571
Memory	n.a.	n.a.	n.a.	181,620	189,945
RAMs	n.a.	n.a.	n.a.	75,234	95,346
Other Monolithic	25,299	47,012	58,464	80,566	104,408
Hybrid	58,117	73,593	102,381	96,673	72,040
Discrete Devices	205,305	223,327	245,532	227,343	215,885
Transistors	85,374	90,880	95,217	87,339	81,764
Diodes and Rectifiers	69,053	75,761	88,675	79,579	74,244
Other	50,878	56,686	61,640	60,425	59,877
Parts	1,255,949	1,735,653	2,367,684	2,583,378	2,745,222
Total Exports	1,933,186	2,609,036	3,446,692	3,579,131	3,797,368

Table 4B: U.S. Exports of Semiconductors to Japan, 1978-82

(in thousands of dollars)

	1978	1979	1980	1981	1982
Integrated Circuits	$79,081	$138,290	$113,090	$119,420	$142,669
Linear	15,056	21,914	19,505	19,750	18,081
Digital Bipolar	19,553	28,579	24,085	24,739	26,265
Logic	n.a.	n.a.	n.a.	19,929	18,102
Memory	n.a.	n.a.	n.a.	4,810	8,163
Digital MOS	34,374	64,345	53,234	56,556	75,208
Microprocessors	n.a.	n.a.	n.a.	17,395	16,011
Logic	n.a.	n.a.	n.a.	14,785	23,526
Memory	n.a.	n.a.	n.a.	24,376	35,671
RAMs	n.a.	n.a.	n.a.	7,739	7,139
Other Monolithic	1,770	11,559	3,485	4,225	4,035
Hybrid	8,328	11,893	12,781	14,150	19,080
Discrete Devices	12,738	13,669	12,691	14,266	13,720
Transistors	6,657	5,399	4,295	6,438	6,408
Diodes and Rectifiers	3,000	4,169	4,030	4,228	3,666
Other	3,081	4,101	4,366	3,600	3,646
Parts	13,781	20,248	25,678	35,175	33,971
Exports to Japan	105,600	172,207	151,459	168,861	190,360

Source: U.S. Department of Commerce, U.S. Exports (FT 410)

Table 5A: Total U.S. Imports of Semiconductors, 1978-82

(in thousands of dollars)

	1978	1979	1980	1981	1982
Integrated Circuits	$1,388,588	$1,919,583	$2,756,516	$2,952,651	$3,461,331
Linear	185,112	223,886	286,711	324,573	388,107
Digital Bipolar	439,374	553,034	720,634	693,300	846,904
Logic	n.a.	n.a.	n.a.	455,358	614,683
Memory	n.a.	n.a.	n.a.	237,942	232,221
Digital MOS	619,872	941,183	1,615,353	1,813,617	2,084,522
Microprocessors	n.a.	n.a.	n.a.	242,085	267,615
Logic	n.a.	n.a.	n.a.	349,752	442,529
Memory	n.a.	n.a.	n.a.	1,221,780	1,374,378
RAMs	n.a.	n.a.	n.a.	712,282	834,359
Other Monolithic	52,411	82,299	28,926	19,290	45,696
Hybrid	91,819	119,181	104,892	101,871	96,102
Discrete Devices	302,980	352,267	370,185	438,344	433,816
Transistors	176,285	192,084	208,989	259,510	259,661
Diodes and Rectifiers	72,224	98,599	86,365	108,610	112,479
Other	54,471	61,584	74,831	70,224	61,676
Parts	74,698	145,758	183,059	168,675	232,514
Total Imports	1,766,266	2,417,608	3,309,760	3,559,670	4,127,661

Table 5B: U.S. Imports of Semiconductors from Japan, 1978-82

(in thousands of dollars)

	1978	1979	1980	1981	1982
Integrated Circuits	$82,694	$176,054	$314,341	$286,176	$444,967
Linear	9,786	1,583	13,845	15,257	22,397
Digital Bipolar	13,749	31,649	47,535	59,917	70,874
Logic	n.a.	n.a.	n.a.	28,474	40,753
Memory	n.a.	n.a.	n.a.	31,443	30,121
Digital MOS	18,529	67,990	231,404	190,773	328,968
Microprocessors	n.a.	n.a.	n.a.	5,394	9,279
Logic	n.a.	n.a.	n.a.	20,935	34,036
Memory	n.a.	n.a.	n.a.	164,444	285,653
RAMs	n.a.	n.a.	n.a.	128,763	215,950
Other Monolithic	1,961	3,374	713	2,178	1,516
Hybrid	38,669	71,458	20,844	18,051	21,212
Discrete Devices	40,007	45,419	42,633	54,731	57,646
Transistors	20,522	23,761	21,053	30,679	37,736
Diodes and Rectifiers	13,604	15,699	13,027	16,429	12,530
Other	5,881	5,959	8,553	7,623	7,380
Parts	11,352	20,533	40,247	44,464	80,994
Imports from Japan	134,053	242,006	397,221	385,371	583,607

Source: U.S. Department of Commerce, U.S. Imports for Consumption and General Imports (FT 246)

Table 6: Japan's Production of Semiconductors, 1978-82

(value in thousands of dollars*; quantity in thousands of units)

	1978	1979	1980	1981	1982
Value					
Integrated Circuits	$1,337,481	$1,747,408	$2,514,862	$3,123,034	$3,352,271
Linear	376,017	437,045	588,035	851,660	708,019
For Industrial Equipment	n.a.	n.a.	n.a.	n.a.	167,745
For Consumer Goods	n.a.	n.a.	n.a.	n.a.	540,273
Digital Bipolar	194,487	233,189	320,309	427,514	523,963
Logic	n.a.	n.a.	n.a.	n.a.	418,518
Memory	n.a.	n.a.	n.a.	n.a.	105,445
Digital MOS	625,741	895,898	1,365,632	1,541,018	1,753,246
Logic	n.a.	n.a.	n.a.	n.a.	835,884
Memory	n.a.	n.a.	n.a.	n.a.	917,362
Hybrid	141,236	181,277	240,886	302,843	367,043
Discrete Devices	1,193,988	1,158,743	1,295,647	1,715,680	1,444,236
Diodes	156,706	154,495	189,733	267,208	206,790
Rectifiers	235,680	226,120	232,322	263,367	210,464
Transistors	550,580	476,618	501,804	708,198	576,017
Light-Emitting Diodes	102,628	150,164	207,228	289,313	274,608
Other	148,394	151,346	164,560	187,594	176,358
Total Production	2,531,469	2,906,151	3,810,509	4,838,714	4,796,507
Quantity					
Integrated Circuits	1,176,152	1,777,376	2,660,172	3,495,157	4,381,077
Linear	608,082	849,648	1,164,407	1,557,920	1,640,802
For Industrial Equipment	n.a.	n.a.	n.a.	n.a.	376,716
For Consumer Goods	n.a.	n.a.	n.a.	n.a.	1,264,086
Digital Bipolar	261,541	367,411	514,592	613,842	963,244
Logic	n.a.	n.a.	n.a.	n.a.	934,791
Memory	n.a.	n.a.	n.a.	n.a.	28,453
Digital MOS	250,404	477,286	863,991	1,162,603	1,558,489
Logic	n.a.	n.a.	n.a.	n.a.	1,021,072
Memory	n.a.	n.a.	n.a.	n.a.	537,417
Hybrid	56,125	83,031	117,182	160,792	218,542
Discrete Devices	10,566,619	12,281,343	16,327,963	22,661,019	21,555,291
Diodes	3,605,354	4,489,182	6,424,432	8,817,839	7,980,714
Rectifiers	1,620,296	1,863,113	2,209,898	2,519,192	2,408,362
Transistors	4,077,159	4,305,932	5,527,623	8,698,034	8,371,872
Light-Emitting Diodes	555,211	940,410	1,410,805	1,841,574	2,113,487
Other	708,599	682,706	755,205	784,380	680,856

*The following average annual exchange rates, which reflect the midpoint on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1978, ¥210.40; 1979, ¥219.14; 1980, ¥226.75; 1981, ¥220.54; and 1982, ¥249.05.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics 1982

Table 7A: Japan's Total Exports of Semiconductors, 1978-82

(in thousands of dollars*)

	1978	1979	1980	1981	1982
Integrated Circuits	$246,115	$497,991	$805,140	$907,867	$1,148,119
Packaged	202,831	404,570	665,448	717,509	900,695
Unpackaged	43,284	93,421	139,691	190,357	247,424
Discrete Devices	230,691	262,283	279,226	334,175	282,619
Packaged	204,145	228,861	239,064	276,335	238,693
Transistors	107,204	108,550	101,780	111,043	87,789
Diodes and Rectifiers	61,425	73,687	77,360	86,480	65,545
Other	35,516	46,624	59,924	78,812	85,359
Unpackaged	26,546	33,882	40,162	57,840	43,926
Total Exports	476,805	760,274	1,084,366	1,242,041	1,430,738

Table 7B: Japan's Exports of Semiconductors to the United States, 1978-82

(in thousands of dollars*)

	1978	1979	1980	1981	1982
Integrated Circuits	$81,952	$192,388	$317,833	$323,675	$470,179
Packaged	81,242	188,757	307,432	306,688	442,528
Unpackaged	709	3,631	10,401	16,988	27,652
Discrete Devices	32,741	46,017	46,668	67,750	71,461
Packaged	31,399	44,307	44,069	64,548	68,130
Transistors	17,444	19,888	18,027	23,023	22,795
Diodes and Rectifiers	10,039	16,714	13,604	16,841	13,775
Other	3,915	7,705	12,438	24,683	31,561
Unpackaged	1,342	1,710	2,598	3,202	3,331
Exports to the United States	114,693	238,405	364,501	391,425	541,640

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen export figures: 1978, ¥212.18; 1979, ¥217.47; 1980, ¥227.67; 1981, ¥219.90; and 1982, ¥248.33.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

Table 8A: Japan's Total Imports of Semiconductors, 1978-82

(in thousands of dollars*)

	1978	1979	1980	1981	1982
Integrated Circuits	$288,936	$452,796	$477,775	$519,474	$513,015
Packaged	254,888	408,596	412,932	448,281	442,506
Digital	177,544	293,292	283,457	286,466	296,523
Other	77,344	115,303	129,475	161,815	145,983
Unpackaged	34,047	44,200	64,842	71,193	70,509
Discrete Devices	96,270	119,935	137,381	177,101	136,966
Packaged	95,996	119,114	136,558	176,638	136,387
Transistors	47,534	53,763	61,194	90,995	66,186
Diodes and Rectifiers	13,896	19,269	23,725	31,488	24,191
Other	34,566	46,083	51,639	54,155	46,010
Unpackaged	274	821	822	463	579
Total Imports	385,206	572,730	615,155	696,575	649,982

Table 8B: Japan's Imports of Semiconductors from the United States, 1978-82

(in thousands of dollars*)

	1978	1979	1980	1981	1982
Integrated Circuits	$191,793	$340,565	$305,320	$320,487	$336,263
Packaged	180,590	314,133	267,250	275,377	287,349
Digital	136,479	241,437	197,594	201,458	224,310
Other	44,111	72,697	69,656	73,919	63,039
Unpackaged	11,203	26,432	38,070	45,110	48,914
Discrete Devices	29,163	39,510	39,622	39,173	34,919
Packaged	28,905	38,724	38,915	38,797	34,512
Transistors	6,808	9,187	8,425	9,688	8,465
Diodes and Rectifiers	2,792	4,144	6,150	7,319	5,625
Other	19,304	25,393	24,340	21,790	20,422
Unpackaged	258	786	708	375	407
Imports from the United States	220,955	380,076	344,943	359,660	371,182

*The following average annual exchange rates, calculated by the Ministry of Finance, were used to convert the yen import figures: 1978, ¥212.17; 1979, ¥217.46; 1980, ¥227.85; 1981, ¥219.94; and 1982, ¥248.30.

Source: Japan, Ministry of Finance, Japan Exports and Imports: Commodity by Country

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REPORT

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THE IMPACT OF CHANGING CONSUMPTION PATTERNS ON JAPAN'S ECONOMY

Summary

Japanese government officials believe that stable economic growth sustained by domestic demand is essential if they are to improve economic relations with their trading partners and avoid large trade surpluses. To this end, personal consumption, which accounts for more than 50 percent of the gross national product, is expected to lead economic growth. However, bracket creep in the absence of income-tax cuts, increases in social security contributions, and lower wage increases have resulted in some stagnation in personal consumption. Current statistics indicate a structural change in Japanese consumption patterns with an increase in the share of total household spending on expenditures for services. This report will analyze the shift in consumption patterns and its effects on Japan's economy.

Introduction

Personal consumption in Japan, which had shown a real (inflation-adjusted) growth rate of only 0.7 percent in fiscal 1980 and 1.1 percent in 1981, began to recover in 1982 and recorded a 4.7-percent increase. Taking into account this figure as well as various trends in personal consumption, government economists forecast that 1983 would show a 3.9-percent increase — a rate which would be a strong influence toward economic recovery.

However, the monthly survey for nominal household spending in May showed a 0.9-percent drop over the same month of the previous year, following a 0.2-percent dip in March and a slight 1.8-percent rise in April. These figures give rise to some concern as to whether the expected increase will be attained. Explanations for the lower level of consumer spending hold that disposable income is down due to higher taxes and larger social security contributions. These expenditures for fiscal 1982 rose 14.0 percent.

Disposable income increased only 5.1 percent, but the average propensity to consume also increased — rising to 79.5 percent — so that spending rose 5.2 percent. Adjusted for inflation, the real gain was only 2.7 percent.

Government officials say the May decline was a result of cool weather (which affects summer purchases), low wage increases in the spring labor contracts, and anticipation of a reduction in the summer bonus. Consumers generally respond to a slowing of disposable income by reducing outlays for manufactured goods, including clothing and consumer durables. A sharp decline in expenditures for automobiles (down 65.0 percent from a year ago) also affected total household spending figures for the month. However, expenditures for medical and recreational expenses, both in the services category, were up 7.7 percent and 7.5 percent, respectively. Expenditures for services, though they are optional, tend to be fixed and are not cut even in a recessionary period. A hike in consumer spending for services is also evident in the long term. Indexing the level of personal consumption in 1970 at 100, consumer spending rose to 125 in 1982. However, expenditures for goods increased only to 113, while spending for services grew to a hardier 132.

Consumer Spending in Japan

The proportion of income spent on food in Japan rose from 0.60 after the war to 57.4 percent in 1950. During the same period, expenditures for clothing were about 10 percent. By 1955, expenditures for both these categories had declined to 55.5 percent, as high economic growth spurred widespread purchases of high-ticket consumer goods, including automobiles, television sets, refrigerators and washing machines. As a result, leisure time increased, and with the expansion of the economy, demand for services advanced. After the 1973-74 oil crisis, an increase in consumer prices led to a contraction in the proportion of spending for merchandise, but did not halt rising spending on such costly services as education and health care, which are not entirely discretionary.

Annual surveys show the changes in spending patterns. The consumer survey for fiscal 1982, for instance, cites a 5.2-percent upturn in Japanese household expenditures (2.7 percent in real terms) over the previous year. A breakdown shows furniture and household utensils up 4.0 percent, recreation up 3.9 percent and medical care up 1.4 percent. Real declines were reported in clothing (down 1.5 percent) and education (down 7.2 percent). Purchases of foodstuffs declined slightly (e.g., cereals were down 1.0 percent, fish and shellfish down 1.5 percent) but supplementary food industry items, including pre-cooked food and restaurant meals increased by about 3.9 percent.

As shown in Table 1, the ratio of food costs to total household expenditures has fallen in the last 12 years, from 34.0 percent in 1970 to 29.0 percent in 1980 and 26.7 percent in 1982. Clothing slipped from 9.5 percent in 1970 to 7.1 percent in 1982. The proportion of income spent on furniture and household appliances also declined. In contrast, the percentage spent on education, transportation and communication increased during the same period. In 1970, expenditures for goods versus services were 73 percent and 27 percent respectively, shifting in 1980 to 67 percent and 33 percent. By 1982, services, including utilities, education, medical care, transportation and communication accounted for one-third of total household expenditures. This trend is also evident in the data for total domestic production. The government's 1980 input-output table shows that the share of service industries to total domestic production increased from 11.6 percent in 1975 to 12.7 percent in 1980.

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Factors Involved in Consumption

This change in household spending patterns has several causes. First, consumers have satisfied most of their needs. Figures show the proportion of total households owning durable goods in 1980 was 99.5 percent for refrigerators, 96.9 percent for vacuum cleaners, 98.9 percent for color television sets, 62.0 percent for passenger cars and 42.2 percent for air conditioners.

Second, leisure time has increased as working hours have been cut, and weekends are often devoted to recreation. In 1970, 31 percent of the workforce was employed more than 48 hours, but in 1975 only 17 percent worked more than 48 hours. Saturdays were workdays for 79 percent of all employees in 1970, but by 1975, the turnaround gave the same 70 percent Saturdays off.

Third, participation of women in the labor market has increased, due to a decline in the number of children, the use of electrical appliances and changes in the industrial structure. The number of women at work was recorded at 21.4 million in 1980, — 38.7 percent of the workforce. Moreover, the rapid development of the media and the emphasis on higher education have contributed to a robust demand for information and leisure. That, in turn, has led consumers to an interest in higher quality, more convenience and more comfort. Simultaneously, the business sector has increased its needs for information and telecommunications services, elevating the status of the departments in charge of these facilities and emphasizing higher standards of efficiency and expertise. As a result, demand for lawyers, business consultants, maintenance and security personnel have increased.

For their part, basic industries — which have been adversely affected by increases in energy costs and the global downturn — have been overtaken by a shift to a more service-oriented industrial configuration. As table 2 shows, ratios of pretax profit to net worth have been larger in the service industries than in the manufacturing sector since the oil crisis. Profitability in the service area has accelerated this transfer.

Service-Oriented Consumption

Services have a different character than goods. For one thing, production and consumption of services take place simultaneously. Moreover, the production of services is highly dependent upon the skill and ability of the supplier, and there are fewer economics of scale than in the production of goods. Therefore, prices of services are likely to rise over time relative to manufactured goods, but lack of acceptable substitutes may reduce their price elasticity (the negative effect of price increases on demand). For example, even if parents know about a tuition increase in college for the next year, they are unlikely to revise their children's educational goals. The service sector also requires far less capital. As the economy progresses to this stage of maturity, individual savings also tend to increase and the liquidity of the business sector tends to rise. Thus, a decline in the demand for investment funds by business and an increase in the supply of savings creates a surplus of funds in the market which will seek profitable investments.

Another legacy of the economy's new direction is the change in the importance of consumption. Historically, total sales at department stores and supermarkets have been used as indicators of personal consumption. But in 1982, retail sales were flat while personal spending picked up because consumers did less of their spending in department stores and supermarkets. With an increase in the ratio of services spending to total consumption, there is less spillover on manufacturing output than is the case when consumers purchase goods. Yet another product of the growth of the service-oriented economy is its greater positive impact on employment (because of the relative lack of economies of scale), especially because the manufacturing sector is headed toward robotics and mechanization.

Ministry of Finance Study

A Ministry of Finance (MOF) study group analyzing structural changes in the economy has proposed a new system to cope with the change of prime weight from hardware to software called "soft-nomics." The study calls for a new approach to economic management compared to that under the high economic growth period to reflect the expansion of the service industry and the shift to service-oriented consumption.

More specifically, the report recommends reconsideration of Keynesian economic policy, promotion of fiscal reform, an emphasis on the private sector, and a review of the data on which the gross national product is based. The report notes that tertiary industry (which includes much of the service industry) in 1980 accounted for 59 percent of the gross national product and in 1982 employed 55 percent of the workforce. The weight of software in the secondary industry (which is primarily manufacturing) also has increased, in expenditures for design, advertising, marketing, planning, information and research, the report indicated. Since the structure of the economy is now orientated to qualitative improvement, the report said, a return to Keynesian theory, a reliance on the private sector, and a curb on government intervention were essential. The report then called for strict control over fiscal spending to curb inflation and cut the huge fiscal deficits.

Capital spending requirements, the group reports, will be smaller in the "soft" sector than in industries such as heavy machinery and chemicals. Therefore, while loan demand will decline, liquid corporate assets will increase, creating a strong awareness of, and preference for, higher interest rates. The report noted that the software economy will contribute to the importance of monetary policy over fiscal policy, and called for a refinement of statistics on the service industries and more detailed industrial classifications.

A contradictory view was outlined in the Economic Planning Agency (EPA) survey on Japanese consumer spending. According to EPA analysts, consumers are still buying durable goods and there is no discernible trend to service-oriented consumption. EPA officials reported that a nationwide sampling of about 5000 households shows that more than 10 percent purchased three types of goods — color television sets, carpets and cars — as additions to or replacements of earlier purchases, suggesting that Japanese consumers still have an interest in purchasing durable consumer goods.

In general agreement with this position, a Mitsubishi Bank Ltd. report says that the increase in expenditures for services was actually the result of substantial increases in the price of services. It notes that the ratio of service expenditures to total spending of households (after inflation) accounted for 41.9 percent for the first half of 1982, up 4.4 percentage points over 1973, (prior to the oil crisis). According to the report, the prices of goods were 1.9 higher, but services were up 2.4 times. In particular, essential services increased substantially, such as postal charges (up 3.5 times), tuition (up 3.4 times), train fare (up 2.8 times), and gasoline (up 2.7 times).

Effects on Economic Indicators

Reliance on data used in previous formulations is not useful in evaluating the new trend. Purchases of clothing, food, furniture and major appliances account for less than 40 percent of household expenditures, but more than 80 percent of total retail sales, thus diminishing the usefulness of retail sales volume as an indicator of consumer spending. The index of industrial production, also used as an indicator of economic activity, only accounts for about 30 percent of the gross national product.

As a result, the Ministry of Finance (MOF) has changed its methodology. Instead of evaluating the economic situation on the basis of reports from each branch office, MOF now analyzes corporate quarterly reports and has issued a new industrial classification that divides "tertiary industry" into 13 categories, including financial institutions, wholesalers, retailers, information vendors, lease and computer services, culture and sports industries. It has also included small- and medium-scale businesses in its samples.

The Economic Planning Agency is also reviewing a new index of economic activity which will introduce household spending as a "lagging indicator." At the same time, EPA will modify its quarterly economic survey of corporate activity, increasing the number of corporations surveyed from 2,000 to 4,000 and adding a number of new survey items such as employment and financial status. And the Bank of Japan, which releases short-term economic surveys every quarter, has also added 2,000 businesses to the number of enterprises surveyed, with the increase mainly in non-manufacturing activities.

Conclusion

With a 60-percent share of total industry in terms of production and employment (about 10 percentage points less than in the United States), the service sector in Japan is soon expected to reach the same level of importance as in the United States. This process brings some concerns. For one, the productivity growth of the economy will decline and it is possible that the underground economy will expand, although the decline is offset by the fact that services require more manpower. Because they are able to absorb excess supplies of labor at a time when manufacturing industries are paring their work forces and introducing technology to eliminate labor, their importance should not be underestimated. The nature of the service sector means that some expansion of the underground economy may not be avoidable, but that problem could be handled by improved tax collection methods. In any case, the expansion of the service industry should not be hindered by concerns over declining productivity growth or taxation problems.

It can be expected that the economy will stabilize at a slower growth rate as it depends more on services, but as mentioned earlier, the current statistics do not offer much guidance. The revision of economic indicators will be helpful in an evaluation of the effects of changes in the economy.

For further information, contact Yoshio Nakamura.

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Table 1: Composition of Household Consumption Expenditures

	1970	1975	1980	1982
Food	34.0%	32.0%	29.0%	26.7%
Housing	4.9	4.9	4.6	4.7
Utilities	4.4	4.5	5.7	5.7
Furniture & Household Appliances	5.0	5.0	4.3	4.2
Clothing	9.5	9.2	7.9	7.1
Medical Services	2.7	2.5	2.5	2.3
Transportation & Communication	5.2	6.1	8.0	9.0
Education	2.7	2.8	3.6	3.8
Recreation	9.0	8.4	8.5	8.6
Other Living Expenditures	22.6	24.8	25.8	27.9
Total	100.0	100.0	100.0	100.0

Source: Prime Minister's Office

Table 2: Ratio of Profit to Net Worth

	1970	1973	1975	1976	1977	1978	1989	1980	1981
All Industries	29.4%	37.7%	13.5%	20.6%	20.3%	23.9%	28.4%	27.4%	21.1%
Manufacturing	29.2	38.3	8.3	18.9	19.5	22.6	30.1	26.4	20.8
Services	33.9	30.6	16.1	27.4	29.2	39.6	38.8	32.0	28.0

Note: The profit figure used here is what the Japanese call "current profit," which is pretax profit exclusive of profit or loss from non-recurring activities.

Source: Ministry of Finance

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JEI

REPORT

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Japan Continues to Wrestle with Import Policy

Japanese government officials continue to search for a policy mix to foster imports that is due by late September (see JEI Report No. 29B, August 5, 1983). This move is motivated by the emergence of a rapidly growing merchandise trade and current surplus this year and the more immediate desire of the government to provide a good atmosphere for President Reagan's November 9-11 visit to Japan. The issue of import promotion has

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STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-May 1982	January-May 1983	March 1983	April 1983	May 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	10.1%	7.6%	7.6%	7.6%	7.5%
Industrial Production	1.0%	0.3%	2.1%	0.1%	-0.1%	1.1%	2.2%
Manufacturing Operating Rate	-4.6%	-2.9%	-1.8%	-2.0%	-1.6%	-1.6%	0.0%
Number of Bankruptcies	-1.5%	-2.8%	-3.5%	5.2%	10.3%	0.8%	8.4%
Residential Construction Starts	-9.2%	-0.5%	-9.9%	-0.8%	-7.0%	-3.8%	-11.2%
Job Openings to Applications (ratio)	0.68	0.61	0.63	0.59	0.61	0.60	0.57
Nominal Wages	5.3%	4.5%	4.9%	4.9%	5.3%	3.8%	3.5%
Labor Productivity	2.4%	1.0%	3.4%†	-0.7%†	n.a.	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.2%	-1.3%	-1.4%	-2.2%	-1.9%
Consumer Prices	4.9%	2.7%	2.9%	2.2%	2.3%	2.0%	2.7%
Yen-Based Export Prices	1.2%	3.9%	6.3%	-5.4%	-6.2%	-6.6%	-4.9%
Yen-Based Import Prices	1.6%	7.9%	7.7%	-3.0%	-4.0%	-6.1%	-5.8%

†Through February of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, July 1, 1983.

STATISTICAL SUPPLEMENT

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-June 1982	January-June 1983	April 1983	May 1983	June 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$ 7,751	$12,736*	$ 2,755*	$ 2,708*	$ 2,772*
Exports (f.o.b.)	149,522	137,663	70,210	68,999*	12,054*	11,478*	12,143*
Imports (f.o.b.)	129,555	119,584	62,459	56,263*	9,299*	8,770*	9,371*
Current Account Balance	4,770	6,850	1,670	7,543*	2,300*	1,655*	2,215*
Long-Term Capital (net)	-9,672	-14,969	-10,374	-6,438*	-2,033*	-71*	-1,622*
Overall Balance	-2,144	-4,971	-6,671	2,069	-1,055	2,048	1,384
International Reserves (end of period)	28,403	23,262	25,487	24,782	24,272	24,484	24,782
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	1,907	7,469*	2,026	1,807	1,899*
Exports (f.o.b.)	152,030	138,831	71,081	69,395*	12,203	11,650	12,276*
Cars	18,445	18,015	9,324	9,767*	1,830	1,654	1,625*
Steel	16,669	15,645	8,473	6,085*	1,002	1,018	1,105*
Imports (c.i.f.)	143,290	131,931	69,174	61,926*	10,177	9,844	10,378*
Crude Oil	53,343	46,274	24,357	20,508*	3,346	2,721	2,940*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	6,070	7,086*	1,545	1,140	1,429*
Exports (f.o.b.)	38,609	36,330	18,563	18,929*	3,410	3,236	3,680*
Imports (c.i.f.)	25,297	24,179	12,493	11,843*	1,865	2,096	2,250*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥237.70	¥238.30	¥239.70
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-9,214	-9,072	-1,328	-1,914	-1,348
Exports (f.a.s.)	21,823	20,966	10,467	10,041	1,752	1,547	1,936
Industrial Supplies	8,983	9,173	4,734	4,175	838	585	701
Food and Feed	5,896	4,971	2,382	2,430	416	415	439
Capital Goods	4,767	4,434	2,174	2,318	325	368	605
Consumer Goods	1,318	1,356	688	687	118	108	122
Imports (Customs)	37,612	37,744	19,682	19,113	3,080	3,461	3,284
Automotive Products	12,950	12,890	6,661	7,167	1,002	1,401	1,295
Industrial Supplies	7,179	6,795	3,887	2,513	414	444	398
Consumer Goods	8,340	7,842	3,960	3,707	665	586	610
Capital Goods	8,589	9,530	4,775	5,405	940	975	928

*Preliminary

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REPORT

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JAPAN'S PLANT EXPORT ACTIVITIES

Summary

Japan's plant exports are considered a key export initiative, advancing overseas investments, establishing ties with developing countries, and often securing the import of natural resources. Since many projects require large-scale official and private financing and many companies can be involved in a specific consortium, the government tends to follow these activities closely and there is always lively coverage in the press. This paper will discuss the steps involved in developing these exports and analyze some of the problems that accompany these potentially profitable but at the same time risky ventures.

Definition

What precisely constitutes a plant export is often a matter of debate, although a loose definition would cover exports that combine capital equipment, technology, construction and managerial expertise in one package. But, as described below, the Japanese government considers shipment of heavy machinery to the importing country to be plant exports as well. More complicated projects include preliminary feasibility studies, formal bidding, financing, construction and technology. Activities involve trading companies, manufacturers, construction firms, commercial and government banks and shipping concerns, and contracts amount to millions of dollars.

Japanese trade statistics list plant exports under two categories. Projects that are financed by international institutions or with commercial or government loans on a deferred payment basis and which require the approval of the Ministry of International Trade and Industry (MITI) comprise the first group. MITI's white papers on trade discuss this category of plant export. All those which do not require government approval fall in the second group. MITI conducts regular surveys to determine the level of activities of these exports.

MITI defines as plant exports all shipments of heavy machinery valued at more than $500,000, with the exception of transportation equipment such as ships, automobiles, trains and non-machinery. When the Organization for Economic Cooperation and Development (OECD) and the Japan Machinery Exporters' Association publish data on international plant investments, the figures are determined by selecting certain categories from the Standard International Trade Classification (SITC). Of 1980's total plant exports, West Germany accounted for 21 percent, the United States 19 percent and Japan 12 percent.[1] None of these statistics can capture precisely the package of activities and products that go into many plant construction projects. Feasibility studies, engineering, construction and training, for example, are service transactions, and not included in these statistical measures. The published statistics, though, give at least a rough approximation.

FY 1982 Record

As shown in Table 1, Japan's $13.4 billion in plant exports accounted for 10 percent of its total exports in FY 1982. By region, 46 percent went to Southeast Asia, 23 percent to the Middle East and 11 percent to Central and South America. Nearly 7 percent went to Africa, 4 percent to the communist bloc and 3 percent to Western Europe and North America. By types, the largest share went to electric machinery plants, followed by oil and natural gas refineries, petrochemical, steel and nonferrous metal facilities (Tables 2 and 3). Exports to Southeast Asia and the Pacific increased from the previous year, but were flat or declined substantially everywhere else, falling 23 percent from year-earlier figures. Large-scale projects of more than $100 million fell to a total of 22, valued at $7.5 billion, compared with 37 projects amounting to $10 billion in the previous year. The majority of these projects required suppliers' credit, and even the oil-producing countries, which formerly paid cash, chose deferred payments.

Assessment of Japan's Position

A recent report by the Plant Export Policy Committee, a MITI advisory group, suggests that Japanese exporters are succumbing to competition from French and West German groups.[2] In FY 1982, it notes, Japanese exporters lost out in 27 ventures, each worth ¥10 billion ($42 million). While this number is only slightly off the previous year's figures, the ratio of contracts lost to contracts won showed an increase. Two factors seemed to be of importance: exchange rates and cost competitiveness. Moreover, European governments have been increasingly using political muscle, aided by official development assistance (ODA), to attract contracts. At the same time, FY 1982's decline was also affected by a drop in demand as the worldwide recession reduced opportunities, as well as by financial problems in the oil-producing nations and mounting developing-country debt.

Another evaluation in the 1983 MITI White Paper on International Trade analyzes some problems in expanding plant exports.[3] The ministry notes that by developing desired technologies, expanding engineering training, and strengthening the civil engineering divisions of exporting companies, Japan's competitive position can be turned around. Both studies point out that Japanese exporters must improve their consulting services, project-development expertise, and feasibility studies — areas in which Japan is considered to be weaker than its American and European competitors.

Recently, a change in procedure involving broad international consortia has emerged. This involves participation by a number of foreign manufacturers, trading

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companies and financial institutions, which diversifies the huge costs and risks involved in large-scale plants. In 1982 there was a 40-percent increase in the contract value of international consortia in which Japanese firms participated. Increasingly now, importing countries are becoming more involved in plant construction, particularly the newly industrializing countries in Latin America and Southeast Asia. In this way they can capture a large share of the orders for local procurement, while depending on imported technology and capital. Because local procurement cuts costs, avoids trade conflicts and encourages long-term commercial relationships with the importing countries, MITI endorses participation in these projects. Overwhelmingly, the destination of Japanese plant exports is the developing countries, with financing provided by Japan. The Japan Machinery Exporters Association reports that, in 1982, individual companies handled 23 percent of Japan's plant exports, domestic consortia 36 percent, and international consortia 41 percent.

Export Procedure and Financing

Government approval is required for all plant projects in the deferred-payment category and is handled by MITI in consultation with the Ministry of Finance. Generally speaking, companies file preliminary agreements, and if contracts are signed within one year without serious changes, approval is automatic.[5] In most cases, exporters apply for financing by the Japan Export-Import Bank (Ex-Im Bank), in addition to commercial banks. The Ex-Im Bank, a government financial institution, draws funds from the government's Industrial Investment Special Account and borrows from the government's Trust Fund Bureau and from foreign financial institutions and international capital markets. The bank's function is to supplement financing by commercial banks and other financial institutions for plant and ship exports, to provide funds to develop and import natural resources, and to expand overseas investment activities. The traditional method for financing exports through export suppliers' credits covers payment of all contract costs except for the downpayment, with interest rates and repayment schedules set by OECD guidelines.[6] The exporter is covered by government insurance against losses from war, internal disorder or bankruptcy. Financing by the Ex-Im Bank supplements commercial bank and other loans up to 70 percent of the export contract amount. The exporter can also take advantage of a tax deduction on emergency funds to meet unexpected problems such as exchange-rate fluctuations.

Plant exports tend to be led by Japan's large trading companies, whose global information networks constantly track possible projects. In addition, government agencies involved in economic development evaluate host-country requirements and assess plant export opportunities. When government and industry cooperate on large-scale plant exports, they are designated "national projects." An aluminum plant in Indonesia, petrochemical plants in Saudi Arabia, Iran and Singapore and three plants in Brazil are examples of this category of investment.

Considering the scale of plant exports and the risks involved in developing countries, an evaluation of country risk is vital in all of these projects. At the government level, information is sought from overseas embassies, the Ex-Im Bank's overseas branches, offices of the Overseas Economic Cooperation Fund and the Japan External Trade Organization (JETRO). Government research institutions such as the Institute of Asian Economies conduct country-by-country studies. Both government and private-sector banks are active in these assessments. Trading companies and manufacturers rely on their own networks to provide commercial information. Nevertheless, the accuracy of the assessment is often in question because so much of the information is subject to political and foreign policy interpretations. In terms of quantity, Japanese exporters and financial institutions have enough information, but particular attention must be paid to strategic concerns. This caution applies t all exporters, however, since high risks are inherent in these projects.

Trading Companies

The press frequently highlights the role of the major trading companies in project coordination. These organizations gather information, coordinate financing and function as intermediaries for participating companies, drawing commissions from such services. Trading companies employ substantial numbers of legal experts who help negotiate contracts for the manufacturers whose technological expertise the trading company is selling. Their network of international resident offices makes them well suited to handle investments through international consortia, particularly in cases involving non-cash payments, such as counter-purchases. With experience, some individual manufacturers are confident that they can challenge the trading companies' role using electronic telecommunications and in-house information services. However, as the trading firms also have access to these devices and a superior intelligence and financial network supplying information on economic and political conditions, they are in a strong position. In fact, recently, they have been active in energy development and third-country trade as well as plant exports. All the major trading companies are said to have been training large numbers of new college graduates in departments related to the expansion of these projects.[7]

The uncertainties posed by developments in host countries have been demonstrated by the problem-ridden Bandar Khomeini petrochemical plant in Iran. Mitsui & Co., one of the top trading companies, was a leading force in this project, initiated in 1971. The plant was designed to produce 300,000 tons of ethylene and 1.9 million tons of liquefied petroleum gas annually. The cost was estimated at ¥730 billion ($3 billion). When political disorders halted construction in the spring of 1979, the plant was 85 percent completed. Because of the size and importance of the investment, the Japanese government agreed to extend financial support, elevating the enterprise to the designation of a national project. When the war between Iran and Iraq erupted in 1980, the plant was bombed repeatedly by Iraqi planes, and negotiations with Iran to resume construction have so far made little progress.

The weak performance of several other large projects is notable. Saudi Arabia recently cancelled a ¥200 billion ($830 million) water-purification plant undertaken by a Japanese group led by Sumitomo Corp. An accompanying electric generating plant contract won by another Japanese group was also cancelled. While the Saudi government did not disclose any reasons, it is assumed that a revenue shortage springing from the oil glut has forced cutbacks in its ambitious development plans. Additionally, a project in Qatar has been postponed and there is a dispute with Iraq concerning payments for ongoing plant construction.

Future Prospects

According to MITI's survey of prospective contracts in FY 1983, the number of projects being negotiated is about the same as last year, but commitments are down for reasons detailed earlier in this report. In spite of this, the incentives are still strong and the government is trying to improve Japan's competitiveness by devising policies to help exporters. One recommendation from the Plant Export Policy Committee calls for the expansion of official export credits by increasing the funds of the Ex-Im Bank. Export insurance was revamped last spring to meet escalating country-risk situations. Increased economic assistance, particularly yen loans, was recommended, in addition to exploring new and innovative assistance programs. In order to counter aggressive European use of official development assistance to promote plant exports in the form of mixed loans, the committee urged the government to come up with an effective matching scheme.

Although the risks are high, the plant export drive is expected to continue. From the government's point of view, the development and trade components of the projects are effective in foreign economic policy. For the host country, plant construction and manufacturing expansion are essential. Technological transfers deriving from the projects offer self sufficiency and potential exports. The only catch is to identify projects with the potential for successful operations in sometimes-turbulent regions.

Footnotes

[1] Ministry of International Trade and Industry (MITI), Tsusho Hakusho (White Paper on International Trade), 1982, p. 224.

[2] MITI, Plant Export Policy Committee Report, Tsusansho Koho (Gazette), June 23, 1983.

[3] MITI, White Paper 1983, pp. 240-248.

[4] Ibid, p. 245.

[5] Masaru Saito, ed., Plant Yushutsu no Jitsumu (Guidebook on Plant Exports), Diamond-sha, 1976, p. 100.

[6] The Export-Import Bank of Japan, Role and Function, 1982.

[7] Nikkei Business, ed., Shosha Fuyu no Jidai (Trading Companies in a Wintery Era), Nihon Keizai Shimbun, 1983, pp. 90-95.

For further information, contact Fumiko Mori.

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Table 1: Japan's Plant Exports

(in billions of dollars)

	Government-Approved		Others		Total Amount	Ratio to Total Exports	
	Number of Contracts	Amount	Number of Contracts	Amount		Approved Contracts	All Contracts
FY 1973	350	$2.2	n.a.	n.a.	n.a.	5.5%	n.a.
FY 1974	415	3.9	n.a.	n.a.	n.a.	6.6	n.a.
FY 1975	489	5.2	n.a.	n.a.	n.a.	9.2	n.a.
FY 1976	680	8.0	n.a.	n.a.	n.a.	11.3	n.a.
FY 1977	736	8.6	n.a.	n.a.	n.a.	10.2	n.a.
FY 1978	753	8.7	n.a.	n.a.	n.a.	8.8	n.a.
FY 1979	743	11.8	200	$1.1	$12.9	11.0	12.0%
FY 1930	677	8.9	340	2.9	11.8	6.5	8.5
FY 1981	455	12.3	392	5.1	17.5	8.1	11.5
FY 1982	386	10.9	525	2.5	13.4	7.8	9.6

Notes: 1)Government approved projects include all export contracts for machinery exceeding $500,000, (excluding transportation equipment), that are made on a deferred payment basis.

2)Others (those which do not require government approval) follow the same definition, but are not on a deferred payment basis. The survey of this category began in FY 1979.

Source: Tsusansho Koho, (MITI Gazette), June 23, 1983.

Table 2: Plant Exports by Region

(in millions of dollars)

	FY 1980			FY 1981			FY 1982		
	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports
Southeast Asia	196 (313)	$2,436 (3,134)	27.3% (26.6)	160 (314)	$4,411 (5,738)	35.8% (32.9)	111 (303)	$5,358 (6,094)	49.3% (45.6)
Middle East	124 (165)	1,744 (2,903)	19.5 (24.6)	62 (125)	2,530 (4,760)	20.6 (27.3)	63 (141)	2,284 (3,116)	21.0 (23.3)
Africa	41 (70)	1,648 (1,877)	18.4 (15.9)	64 (99)	1,392 (1,667)	11.3 (9.5)	64 (112)	690 (883)	6.3 (6.6)
Central and Latin America	81 (146)	791 (1,185)	8.9 (10.0)	43 (96)	651 (1,504)	5.3 (8.6)	39 (88)	1,275 (1,457)	11.7 (10.9)
Communist Bloc	104 (135)	1,277 (1,379)	14.3 (11.7)	47 (78)	1,422 (1,658)	11.5 (9.5)	48 (121)	296 (590)	2.7 (4.4)
Pacific Area	26 (38)	264 (290)	3.0 (2.5)	23 (36)	625 (681)	5.1 (3.9)	24 (45)	723 (817)	6.6 (6.1)
Western Europe & North America	105 (150)	723 (1,024)	8.6 (8.7)	56 (99)	1,281 (1,451)	10.4 (8.3)	37 (101)	250 (415)	2.3 (3.1)
Total	677 (1,017)	8,932 (11,793)	100.0 (100.0)	455 (874)	12,313 (17,459)	100.0 (100.0)	386 (911)	10,875 (13,363)	100.0 (100.0)

Notes: The figures in parentheses refer to projects that do not require government approval.

Source: Tsusansho Koho, (MITI Gazette), June 23, 1983.

Table 3: Plant Exports by Category

(in millions of dollars)

	FY 1980			FY 1981			FY 1982		
	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports
Electric Machinery	140 (220)	$2,078 (2,359)	23.3% (20.0)	116 (201)	$3,449 (4,402)	28.0% (25.2)	96 (209)	$2,549 (2,961)	23.4% (22.2)
Telecommunications Equipment	115 (159)	399 (514)	4.5 (4.4)	69 (129)	744 (941)	6.0 (5.4)	74 (164)	531 (722)	4.9 (5.8)
Textile Machinery	21 (59)	82 (149)	0.9 (1.3)	13 (59)	38 (122)	0.3 (0.7)	6 (57)	17 (101)	0.2 (0.8)
Petroleum & Natural Gas Refineries	23 (30)	855 (1,664)	9.6 (14.1)	20 (56)	2,134 (4,086)	17.3 (23.4)	14 (40)	2,541 (2,957)	23.4 (22.1)
Petrochemical Plants	18 (46)	567 (652)	6.4 (5.5)	9 (23)	364 (1,353)	3.0 (7.8)	13 (22)	996 (1,485)	9.2 (11.1)
Fertilizer Plants	6 (12)	204 (539)	2.3 (4.6)	7 (9)	555 (564)	4.5 (3.2)	5 (13)	878 (913)	8.1 (6.8)
Pharmaceutical Plants	10 (10)	277 (277)	3.1 (2.4)	3 (4)	18 (20)	0.2 (0.1)	-- (2)	-- (40)	-- (0.3)
Synthetic Fabrics Plants	1 (4)	0.8 (22)	0.0 (0.2)	3 (7)	160 (244)	1.3 (1.4)	3 (6)	64 (69)	0.6 (0.5)
Paper & Pulp Plants	2 (5)	9 (31)	0.1 (0.3)	3 (10)	35 (47)	0.3 (0.3)	2 (10)	3 (18)	0.0 (0.1)
Ceramic Plants	7 (13)	321 (424)	3.6 (3.6)	9 (16)	592 (666)	4.8 (3.8)	8 (12)	74 (82)	0.7 (0.6)

	FY 1980			FY 1981			FY 1982		
	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports	Number of Contracts	Amount	Ratio to Total Exports
Food, Beverage & Water Purifying Plants	16 (21)	179 (185)	2.0 (1.6)	16 (22)	706 (716)	5.7 (4.1)	9 (25)	310 (404)	2.8 (3.0)
Steel & Non-Ferrous Metal Plants	62 (86)	2,347 (2,487)	26.3 (21.1)	26 (47)	556 (604)	4.5 (3.5)	24 (45)	1,749 (1,802)	16.1 (13.5)
Resource Development & Civil Engineering Plants	35 (80)	740 (1,337)	8.3 (11.3)	28 (66)	1,192 (1,467)	9.7 (8.4)	20 (48)	331 (516)	3.0 (3.9)
Steel-Using Construction	24 (40)	89 (141)	1.0 (1.2)	3 (11)	47 (82)	0.4 (0.5)	3 (6)	28 (55)	0.3 (0.4)
Others	188 (232)	784 (1,012)	8.8 (8.6)	130 (187)	1,721 (2,144)	14.0 (12.3)	109 (252)	804 (1,187)	7.4 (8.9)
Total	677 (1,017)	8,932 (11,793)	100.0 (100.0)	455 (847)	12,313 (17,459)	100.0 (100.0)	386 (911)	10,875 (13,363)	100.0 (100.0)

Notes: The figures in parentheses refer to projects that do not require government approval.

Source: Tsusansho Koho, (MITI Gazette), June 23, 1983.

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JAPAN'S FOREIGN AID POLICY: AN ANNUAL UPDATE

Summary

During his visit to the United States last January, Prime Minister Yasuhiro Nakasone underscored his government's determination to double Japan's official development assistance (ODA) during the 1981-85 period. By June, however, Tokyo had indicated that attainment of that goal was in jeopardy. In view of the consistent and dramatic increases in aid-giving that Japan has made during the past decade, what has interfered with the pace of the plan? Or, more fundamentally, is Japan's foreign aid policy evolving in yet another direction?

U.S. and Japanese aid officials maintain that several factors beyond Tokyo's control have circumscribed its ODA program, specifically the misalignment of the yen-dollar rate and the reduction in U.S. contributions to multilateral agencies to which Japan's are pegged. Too, there is the Japanese budget deficit. In an attempt to ward off criticism from other major donors that Tokyo is shirking its global responsibilities, the Nakasone government has indicated that it might double one component of ODA -- bilateral assistance. Japanese officials also indicated that this bilateral aid would continue to go in part to countries of strategic importance to the Western alliance.

Comprehensive Security and the ODA Doubling Plan

To understand the significance of Tokyo's pledge to double its foreign economic assistance within five years, it is important to consider how the ODA program has developed during the past three decades. Aid policymakers generally identify several distinct phases as the development assistance program evolved from one that openly

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linked ODA to trade and market development to the current policy that appears to take humanitarian and security considerations into account. The stages follow a logical progression: war reparations, from the mid-1950s until 1965; tied aid to promote exports, particularly to Southeast Asia, from the mid-1950s through the early 1970s; an ambitious effort to improve ODA performance through the untying of assistance; and from the late 1970s to the present, the emergence of a policy that emphasizes meeting basic human needs in developing countries and countries located in regions of strategic importance to the Western alliance.[1]

Observers suggest that Japan's aid program grew directly out of its role as a former colonial power, which explains why a consistently high percentage of assistance has gone to the countries of Southeast Asia. As Table 2 indicates, this geographical bias is still apparent, with approximately 70 percent of ODA targeted to this region. Reparations negotiations between Japan and the Southeast Asian nations provided $500 million to the Philippines and $400 million to Indonesia over a 20-year period, $20 million to Burma for ten years, and special compensation to Thailand, which, owing to its alliance with Japan during the war, incurred financial losses through the issuance of yen notes by Japanese banks in that country.[2] Amity treaties and tied-aid packages were signed in lieu of reparations with Cambodia and Laos. South Vietnam received $39 million in tied aid over a five-year period. Singapore received $17 million in assistance, and debt relief agreements totalling $8.3 million were eventually concluded with Malaysia. In sum, Japan's expenditures for reparations totalled a relatively modest $1 billion over about 20 years, or less than 2 percent per year of the national budget — expenditures which yielded significant economic benefits since the aid provided was by and large tied to procurement in Japan.[3] During this period, however, Japan also viewed itself as a developing country and was quite open about its intent to cultivate export markets as well as secure access to raw materials.

Throughout the 1960s when the Japanese economy grew by approximately 10 percent a year, export credits and private aid still constituted an estimated 65 percent of Japan's total aid flows.[4] ODA as a percentage of GNP remained constant, loan terms were harder than average among the Development Assistance Committee (DAC) of the Organization for Economic Cooperation and Development (OECD), and technical assistance and human resource aid were minimal. At the United Nations Conference on Trade and Development (UNCTAD) in 1965, Tokyo was heavily criticized by both recipients and donors alike for this heavily tied assistance.

In part as a result of this international criticism, Japan entered a new phase in aid-giving. With Japan's GNP moving up to the number-two slot in the industrialized world, Tokyo sought to become an "international donor among donors" by improving the quality and regional distribution of its aid. In the early 1970s, Japan emerged as a leading proponent of untied aid and by the latter part of the decade, led the other major donors in this effort. Shaken by the first oil embargo, Tokyo also recognized the importance of dispersing aid to countries outside its traditional sphere, principally to the resource-rich Persian Gulf.

The most recent stage in the evolution of Japan's aid policy began in 1977, when it embarked on its first ODA-doubling plan. Between 1977 and 1980 the government exceeded its goal, bringing aid to a level of $3.3 billion, and substantially increased the grant and technical assistance elements. Grants, in particular, rose to 77.7 percent in 1979, which, although far below the DAC average that year of 90.7 percent, was nevertheless a significant increase when compared to 1977's 70.2 percent. The percentage of ODA to GNP rose to 0.32 percent in 1980, but was still below the DAC

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average of 0.37 percent. Tokyo also continued to disperse aid outside of Asia. In 1973, for example, 88 percent of ODA funds went to Asia, while only 2.6 percent went to Africa and 1 percent to the Middle East. By 1977, this distribution had shifted; Asia received 60 percent, Africa 17.1 percent, and the Middle East 12.4 percent. In 1980, approximately 70 percent of development aid went to Asia, while the rest was divided fairly equally among the countries of Africa, Latin America and the Middle East.

One factor in this decision was U.S. pressure for more cooperation in development at a time when the Carter administration was pushing for a considerable increase in the U.S. aid program. Probably more significant, however, was a growing body of opinion that felt that Japan should make a concerted effort to carve out an appropriate world leadership role. Since Tokyo, for domestic reasons, is unwilling and unable to expand its military capacity in any way other than in a self-defense context, the development area is a more politically palatable alternative. Then too, the Japanese felt that their economic success story would serve as a role model for other developing nations. Through the first doubling plan, Japan emphasized its obligations as a leader in foreign economic assistance. And indeed, in the past five years, no other nation has equalled the percentage of ODA increases of the Japanese government.[5]

Concurrently, Japan also began to espouse the concept of comprehensive security. The idea first emerged in 1980 in a report commissioned by former Prime Minister Ohira that recommended a comprehensive approach to national security based on long-term strategies for defense, energy and food problems. Most importantly, it said, Japan's defense policy should consist of a mix of military and non-military measures. In early 1981 it was announced that a second consecutive ODA-doubling plan, spanning the 1981-85 period, would become the "pillar" of measures for comprehensive security, reflecting Japan's willingness to play a greater role as a member of the western world. "Economic cooperation according to [Japan's] economic capacity" was advanced as a substitute for a more equitable sharing of the military defense burden -- much to the consternation of the United States which still insists that defense improvements proceed simultaneously.

William L. Brooks and Robert M. Orr Jr., in their study on Japan's foreign aid policy, contend that formulation of the comprehensive security policy and the paramount importance attached to aid was no doubt accelerated by Vietnam's invasion of Cambodia in 1979, oil shortages related to the Iranian revolution, and Moscow's occupation of Afghanistan.[6] Japanese policymakers reasoned that prudent expansion of ODA to strategically important countries -- particularly those which serve as important sources of raw materials — would promote stability and discourage internal or external discord.

Budget Projections for Fiscal 1984

Although only two years have passed since Prime Minister Suzuki declared the aid-doubling target which, if attained, would probably make Japan the second-largest aid donor in absolute terms, it has already run into difficulties. Japanese officials have indicated recently in the press that the goal to increase ODA to approximately $21.4 million by 1985 is probably unattainable due to the weakening of the yen, budget deficits and declines in multilateral aid contributions.

As early as last year, however, Tokyo suspected it might have difficulties making good on its pledge. In 1981, Japan disbursed $3.17 billion in assistance, 4.1 percent below 1980's all-time-high of $3.3 billion. Last year's $3.02-billion record was no better, falling 4.7 percent from the previous year. The original plan envisaged an average 8.7-percent annual growth, which would require increases of over 13 percent in each of the remaining three years. Indeed, earlier this year, the Foreign Ministry requested that fiscal 1984

ODA be expanded by 13.6 percent, contending that the doubling plan could still be realized if the fiscal 1984 and 1985 aid budgets increased by at least 13.6 percent. The government's fiscal austerity policy poses a formidable obstacle, however. In order to reduce the huge budget deficit, line items have generally been held to zero growth. For political reasons the defense and foreign-aid categories have been exempted in response to U.S. pressure that Japan assume more of the defense burden and fulfill its economic assistance commitment. The Nakasone cabinet's recent decision to set an 11.4-percent ceiling on increases in the aid budget for fiscal 1984, while significant in light of the cutbacks domestic social welfare programs suffered, nevertheless strikes a virtually insurmountable blow to the doubling plan.

The tight-fisted Ministry of Finance is not solely responsible, however. Aid authorities point out that the currency misalignment has placed additional strains on an already difficult task. Despite the priority attached to the aid budget, ODA disbursements in 1982 decreased because of the yen's 11.5-percent depreciation in value. When the doubling commitment was made in 1981, the yen was exchanged at 220 to the dollar. During the past two years, however, the yen has plummeted to as low as 270 to the dollar, which has served to cancel out the increases in the yen-based aid budget.

The doubling plan has also been upset by continuing disagreements among major donors — chiefly the United States — about funding levels for multilateral institutions such as the United Nations and the World Bank. Since the 1960s, Japan had maintained a record of contributions to multilateral agencies that was somewhat better than the DAC average. (In 1977, at the onset of its first doubling plan, Japan's multilateral assistance as a percentage of ODA was 36.9 percent compared with a DAC average of 31.4 percent.) As Table 1 indicates, however, Japan's multilateral contributions have been steadily decreasing, and in 1982, constituted approximately 22 percent of total ODA.

This decline is at least partly due to the U.S. decision to reduce or delay its contributions to the multilateral development banks.[7] Since the major donors provide funds according to a formula which fixes their shares relative to the contributions of the United States, Washington's decision determines the amount of money available for developing countries. Tokyo's multilateral assistance funds are deposited in a separate bond account and there is a statutory requirement that any funds withdrawn be specifically pegged to U.S. multilateral contributions. The government has chosen not to challenge this statute due in part to a prevailing sentiment in the donor community that no one should be placed in the position of having to pick up the American slack in multilateral giving.

Is Japan's Foreign Aid Policy Entering a New Phase?

Tokyo's inability to meet the 1985 target as it was originally conceived has prompted speculation that the drive to expand ODA has cooled off. It is generally acknowledged that aid-giving in the foreseeable future will probably expand at a much slower pace. In an attempt to ward off criticism that Japan is shirking its responsibilities as a major economic power, Tokyo now appears to be redefining its aid goals. Since the multilateral dimension is generally felt to be beyond its control, Tokyo has aired two alternative approaches: to double by 1985 the bilateral component of the ODA budget; or to extend the target year to 1987. All the recent evidence suggests that the Japanese appear to be leaning toward the first alternative.

Even if the Finance Ministry had not been as hard on the pursestrings, there is some doubt as to how effectively the Japanese aid bureaucracy could administer a greatly expanded program. According to Professor Haruhiro Fukui of the University of

California, an authority on bureaucratic politics in Japan, the aid bureaucracy is ill-equipped to administer fresh infusions of funds or to redirect it in a timely manner. "To increase the official component," he explained, "means increasing certain types of aid, which in turn means that certain 'pieces of the agencies' pie' are increased at the expense of others. This very difficult and delicate balancing of interests," he continued, "makes it difficult, if not impossible, for the stated goal to be obtained." Brooks and Orr make much the same point that the policy and jurisdictional rivalry in Japan's aid bureaucracy is particularly troublesome. The two implementing bodies, the Overseas Economic Cooperation Fund (OECF) and the Japan International Cooperation Agency receive policy direction from agencies of the government with different mandates. "It should not be surprising if policy [is] not always coordinated under these circumstances," they observe.

Although the momentum has slowed, has the philosophy underlying aid changed? According to Susan Pharr, an official at the Agency for International Development (AID) who is responsible for U.S.-Japan aid cooperation, Japan is still very committed to becoming a leader in development assistance by broadening its aid outside of Asia, particularly to countries bordering conflict situations. Although the Asian region will continue to be an important focus of Tokyo's aid effort -- and the new commitments to South Korea and China are likely to raise this regional concentration to almost 80 percent -- nevertheless there has been a concerted effort to expand assistance to countries of strategic importance to East-West relations, including Egypt, Pakistan and Sudan (see Table 3). Japanese officials reportedly have assured their American counterparts that this trend would continue.

Also indicative of its commitment is Tokyo's interest in collaboration with the United States. During a time of heightened tensions over the bilateral trade imbalance and defense spending, both sides have welcomed this refreshingly non-contentious subject. Aside from improving political ties in the developing world, Washington views collaboration with Tokyo as a means of extending its scarce financial resources to increase the net benefit of its development assistance rather than concentrating on a few limited projects. Tokyo seeks the positive political payoffs, and also looks to joint cooperation as a means of acquiring some U.S. aid expertise. Officials note that Japan's projects are hampered by inadequate evaluation and appraisal procedures, and the government hopes to take advantage of AID's field staff to insure successful project implementation.

To date, the two countries have collaborated on two projects: a dry-land agricultural center in northeastern Thailand, and a smaller project in Tonga in the South Pacific. Aid authorities maintain that subsequent development efforts will probably proceed on parallel lines, rather than being jointly financed. For example, the United States might finance a research center for dry-land agriculture, while Japan would finance a factory to process the food grown as a result of the research. In any event, participants at the June talks agreed that staff level meetings should be initiated and continued on a regular basis to generate other projects and to explore other kinds of aid cooperation.

In terms of the quality of Japan's aid, however, the United States and other DAC members feel there is still room for improvement. The grant element of ODA still hovers around 75 percent, so the terms of its loans are still somewhat tighter than those of other donors. (Several years ago, the OECD set a goal for the grant element at 86 percent; 100 percent would be an outright grant with no restrictions.) Japan's ratio of grants to loans also compares rather unfavorably with the other major donors. In 1980, for example, Japan was the only donor to commit more aid in the form of loans than grants. (During that year, grants constituted less than 50 percent of total ODA.) If and when

Tokyo's fiscal policy relaxes, it is possible that foreign assistance terms will also become more generous. Because of the tight budget, the government has been unable to make any major increases in the grant area and has had to rely more on funds from the Fiscal Investment Loan and Program. In order to keep the OECF (which administers the loans) solvent, the government has therefore had to raise interest rates, which has in turn kept loan terms comparatively hard.

All in all, however, in view of the recent performance of other major donors, such as the United States, Japan is frequently referred to in OECD publications and other multilateral aid fora as a "bright spot" during a time when many donors are reneging on their commitments. The fact that Tokyo probably will not attain its aid-doubling plan as originally conceived does not mean that it no longer recognizes the importance of improving its program.

Footnotes

[1] William L. Brooks and Robert M. Orr Jr., "Japan's Foreign Economic Assistance." Unpublished manuscript.

[2] Ibid.

[3] Ibid.

[4] Ibid.

[5] Ibid.

[6] Ibid.

[7] Ibid.

The author acknowledges the assistance of Dr. Susan Pharr of AID in providing background material for this report. The views expressed are those of the writer. For further information, contact Barbara Wanner.

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Table 1

Total Net Flow of Financial Resources from Japan to Developing Countries and Multilateral Agencies, 1980-82

(in millions of dollars)

Type of Transaction	1980	1981	1982
I. Official Development Assistance (ODA)	$3,303.7	$3,170.9	$3,023.3
Increase Over Previous Year	25.3%	-4.1%	-4.7%
As Percentage of GNP	0.32%	0.28%	0.2%
A. Bilateral Assistance	1,960.8	2,260.4	2,367.3
1. Grants:	652.6	810.4	805.2
Grant Assistance	374.8	432.0	412.3
Technical Assistance	277.8	378.4	392.9
2. Development Lending and Capital	1,308.2	1,450.0	1,562.1
B. Grants, Capital Subscription and Loans to Multilateral Agencies	1,342.9	910.5	656.0
II. Other Official Flows (OOF)	1,478.0	3,022.6	2,790.7
A. Export Credits (over 1 year)	822.9	1,410.4	849.5
B. Direct Investment Finances and Others	767.0	1,489.5	1,971.9
C. Transactions with Multilateral Agencies at Market Terms	-111.9	122.7	30.7
III. Private Flows (PF)	1,957.8	6,010.6	2,928.4
A. Direct Investment	906.0	2,426.1	363.5
B. Export Credits (over 1 year)	73.7	712.3	-1,762.4
C. Other Bilateral Securities and Claims	660.3	1,272.7	2,798.8
D. Multilateral Private Flows	317.8	1,599.5	1,528.5
IV. Grants by Voluntary Agencies	26.4	27.3	25.9
Total Official and Private Flows (I + II + III + IV)	6,765.9	12,231.3	8,768.3
Increase Over Previous Year	-10.5%	80.8%	-28.3%
As Percentage of GNP	0.65%	1.08%	0.83%
For Reference			
Export Credits (total)	896.6	2,122.7	-912.9
Direct Investments and Others (total)	1,673.0	3,915.6	2,335.4

Notes: 1. Net disbursement basis.
2. As the figures in the table are rounded off, they do not necessarily add up to the totals.

Source: Ministry of Foreign Affairs, July 15, 1983

Table 2

Geographical Distribution of Japan's ODA (Net Disbursements), 1980-82

(in millions of dollars)

Year	Total	Asia	Middle East	Africa	Latin America	Europe	Oceania	Unallocable
1980	$1,961 (100.0%)	$1,383 (70.5%)	$204 (10.4%)	$223 (11.4%)	$118 (6.0%)	-$1 (-0.1%)	$12 (0.6%)	$23 (1.2%)
1981	2,260 (100.0%)	1,605 (71.0%)	190 (8.4%)	210 (9.3%)	176 (7.8%)	-2 (-0.1%	19 (0.9%)	62 (2.7%)
1982	2,367 (100.9%)	1,624 (68.6%)	194 (8.2%)	268 (11.3%)	184 (7.8%)	-3 (-0.1%)	23 (1.0%)	77 (3.3%)

Source: Ministry of Foreign Affairs

Table 3

Major Recipients of Japan's ODA, 1978-82

(in millions of dollars)

1978		1979		1980		1981		1982	
Country	Amount	Country	Amount	Country	Amount	Country	Amount	Country	Amount
Indonesia	$227.59	Indonesia	$226.90	Indonesia	$350.03	Indonesia	$299.80	China (PRC)	$368.79
Bangladesh	119.62	Bangladesh	206.33	Bangladesh	215.14	Korea	295.55	Indonesia	294.55
Egypt	118.75	Thailand	179.86	Thailand	189.55	Thailand	214.47	Bangladesh	215.79
Burma	104.02	Burma	178.04	Burma	152.46	Philippines	210.05	Thailand	170.32
Thailand	103.75	Pakistan	168.34	Egypt	122.97	Bangladesh	144.98	Philippines	136.38

Source: Ministry of Foreign Affairs

Table 4

Allocation of Japan's ODA by Income Groups (Net Disbursements), 1981-82

(in millions of dollars)

Recipient Country	1981	1982	Percent Change 1981/82	Percent Distribution 1982
Least Developed Countries (LLDCs)	$ 289.3	$ 406.8	17.2%	12.8%
Low-Income Countries[1] (excluding LLDCs)	786.2	1,209.8	51.1	34.8
Middle-Income Countries[2]	720.5	561.9	23.7	31.9
Newly Industrializing Countries (NICs)	351.8	74.4	3.1	15.6
OPEC Countries[3]	15.2	25.5	1.1	0.7
Unallocable	97.4	88.9	3.8	4.3
Total	2,260.4	2,367.3	100.0	100.0

Notes:
1. Defined by the OECD Secretariat as countries with an average 1980 per capita GNP of not more than $600.
2. Defined by the OECD Secretariat as countries with an average 1980 per capita GNP exceeding $600, excluding NICs and OPEC countries other than Nigeria.
3. Excluding Indonesia and Nigeria.

Source: Ministry of Foreign Affairs

Table 5

ODA of Major Donor Countries, 1982

(in millions of dollars)

Rank	Country	Amount	Percent of Total DAC ODA 1982	Percent Distribution 1981
1	United States	$8,302	29.7%	22.6%
2	France	3,991	14.3	15.8
3	West Germany	3,163	11.3	12.5
4	Japan	3,023	10.8	12.5
5	United Kingdom	1,794	6.4	8.6
6	Netherlands	1,473	5.3	5.9
DAC Total		27,919	100.0	100.0

Source: Ministry of Foreign Affairs

Table 6

Sectoral Distribution of Japan's ODA* (Commitments), 1981-82

(in millions of dollars)

	1981	1982	Percent Change 1981/82	Percent Distribution	
				1982	1982
Contributions Allocable by Sector of Destination	$2,179.53	$2,576.93	18.2%	72.04%	80.72%
Planning and Public Administration	3.73	6.02	61.4	0.12	0.19
Development of Public Utilities	1,113.13	1,628.35	46.3	36.79	51.01
Agriculture	359.55	304.85	-15.2	11.88	9.55
Industry, Mining and Construction	398.61	409.40	2.7	13.18	12.82
Travel, Banking, Tourism and Services	17.52	27.27	55.7	0.58	0.85
Education	65.46	52.80	-19.3	2.16	1.65
Health	168.34	113.71	-32.5	5.56	3.56
Social Infrastructure and Welfare	7.20	18.75	160.4	0.24	0.59
Multisector	45.99	15.78	-65.7	1.52	0.49
Contributions Not Allocable by Sector	845.80	615.35	-27.3	27.96	19.28
Total	3,025.33	3,192.28	5.5	100.00	100.00

*Excluding technical assistance.

Source: Ministry of Foreign Affairs

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Impact of KAL Downing on Japan-Russia Relations

From the first reports about the stunning Soviet downing of a Korean airliner in the Sea of Japan, the United States and Japan have closely coordinated their responses to the Soviet action. Secretary of State Shultz's announcement of the Soviet missile attack was largely based on information from Japanese sources, as was the taped material between the Soviet pilots and the ground stations. The Japanese press reported that the Defense Air Force base on the northern tip of Hokkaido, one of nine electronic stations, discovered the KAL missing around 5 a.m. September 1. By late morning, the Cabinet was fully informed of the sequence of events and the 50-minute tape was delivered to American military intelligence officers the same day. Apparently, though, the release of the tapes shocked Japanese Defense Agency and Foreign Ministry officials as there had been no prior consultation on the matter. It was reported, in fact, that the Defense Agency regarded the disclosure as too sensitive in view of the possibility of a Soviet

Trade and Payments Data
(in millions of dollars unless otherwise indicated)

	1981	1982	January-July 1982	January-July 1983	May 1983	June 1983	July 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$10,121	$16,498*	$ 2,708*	$ 2,772*	$ 3,762*
Exports (f.o.b.)	149,522	137,663	82,132	81,498*	11,478*	12,143*	12,499*
Imports (f.o.b.)	129,555	119,584	72,011	65,000*	8,770*	9,371*	8,737*
Current Account Balance	4,770	6,850	3,166	10,398*	1,665*	2,215*	2,855*
Long-Term Capital (net)	-9,672	-14,969	-12,330	-8,237*	-71*	-1,622*	-1,799*
Overall Balance	-2,144	-4,971	-7,170	2,943	2,048	1,384	874
International Reserves (end of period)	28,403	23,262	25,669	24,939	24,484	24,782	24,939
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	3,183	10,277*	1,807	1,885	2,851*
Exports (f.o.b.)	152,030	138,831	83,034	82,023*	11,650	12,289	12,615*
Cars	18,445	18,015	10,882	11,483*	1,654	1,625	1,717*
Steel	16,669	15,645	9,834	7,112*	1,018	1,105	1,028*
Imports (c.i.f.)	143,290	131,931	79,851	71,716*	9,844	10,404	9,765*
Crude Oil	53,343	46,274	27,743	23,259*	2,721	2,940	2,751*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	7,192	8,603*	1,140	1,417	1,528*
Exports (f.o.b.)	38,609	36,330	21,805	22,621*	3,236	3,685	3,686*
Imports (c.i.f.)	25,297	24,179	14,613	14,018*	2,096	2,267	2,158*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥238.30	¥239.70	¥241.70
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-10,326	-10,709	-1,914	-1,348	-1,637
Exports (f.a.s.)	21,823	20,966	12,244	11,961	1,547	1,936	1,920
Industrial Supplies	8,983	9,173	5,408	4,881	585	701	706
Food and Feed	5,896	4,971	2,811	2,960	415	439	530
Capital Goods	4,767	4,434	2,663	2,777	368	605	459
Consumer Goods	1,318	1,356	805	811	108	122	124
Imports (Customs)	37,612	37,744	22,570	22,670	3,461	3,284	3,557
Automotive Products	12,950	12,890	7,748	8,420	1,401	1,295	1,253
Industrial Supplies	7,179	6,795	4,416	2,966	444	398	453
Consumer Goods	8,340	7,842	4,486	4,401	586	610	694
Capital Goods	8,589	9,530	5,476	6,504	975	928	1,099

*Preliminary

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-June 1982	January-June 1983	April 1983	May 1983	June 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	9.9%	7.6%	7.6%	7.5%	7.7%
Industrial Production	1.0%	0.3%	2.0%	0.4%	1.1%	2.2%	1.9%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.0%	-1.6%	-1.6%	0.0%	0.3%
Number of Bankruptcies	-1.5%	-2.8%	-3.1%	7.1%	0.8%	8.4%	16.2%
Residential Construction Starts	-9.2%	-0.5%	-8.5%	-0.7%	-3.8%	-11.2%	-0.1%
Job Openings to Applications (ratio)	0.68	0.61	0.63	0.59	0.60	0.57	0.58
Nominal Wages	5.3%	4.5%	4.7%	4.8%	3.8%	3.5%	4.2%
Labor Productivity	2.4%	1.0%	3.1%†	-0.3%†	n.a.	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.1%	-1.4%	-0.7%	-0.3%	0.3%
Consumer Prices	4.9%	2.7%	2.7%	2.1%	0.4%	1.1%	-0.7%
Yen-Based Export Prices	1.2%	3.9%	5.9%	-5.5%	-6.6%	-4.9%	-6.5%
Yen-Based Import Prices	1.6%	7.9%	7.3%	-3.9%	-6.1%	-6.7%	-8.3%

†Through March of each year only.

For Japan's most recent GNP figures, see JEI Report No. 25B, July 1, 1983.

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JEI REPORT

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Gibbons Subcommittee Rejects Domestic Content Bill

On September 15, the House Ways and Means Trade Subcommittee, by a 10-3 vote, passed a resolution disapproving H.R. 1234, the domestic content legislation. This resolution, in effect, recommended to the full Ways and Means Committee that the bill be reported unfavorably, which it did on September 20. The full committee's rejection of H.R. 1234 does not necessarily impede the bill's progress to the House floor. Ways and Means was granted only a sequential referral of H.R. 1234, which stipulated that action on the measure be completed by September 27, while House Energy and Commerce enjoys primary jurisdiction. The latter's action on the domestic content bill on June 21 therefore overrides a negative report from Ways and Means, so the bill could still be considered by the full House provided it is granted a rule. Informed sources also point out that the House leadership is committed to considering the bill. Yet the fact remains

A similar mission will visit the United Kingdom, West Germany, France, Belgium and Sweden from November 13 to November 25. At the same time, the government is working on a comprehensive economic package designed to reduce the trade imbalance — including measures to stimulate domestic demand and further open up the Japanese market.

Yoshio Nakamura

Diet Opens Fall Session with Economic Policy Debate

Outlining his legislative plans before the 100th session of the Diet, Prime Minister Nakasone pressed for a series of measures to tighten government spending and restore fiscal balance. To achieve these goals he supported seven bills that the Cabinet intends to submit in the near future that will, he said, spearhead a broad effort to rationalize expenditures, including one to establish a General Affairs Agency by integrating the existing Prime Minister's Office and the Administrative Management Agency. The adjustment will be aided, he promised, when the government submits bills to reform the Nippon Telegraph and Telephone Public Corp. and the Tobacco and Salt Monopoly Corp. in the next session of the Diet. Although the government has abandoned the goal of balancing the budget by 1985, its dependence on deficit-covering public bonds will cease by FY 1990.

Over the past year, the government has been trying to stress economic management, and pinned its hopes on a new eight-year economic program approved by the Cabinet last month. Despite some bright spots, the prime minister observed that weak domestic demand and yen/dollar exchange rates produced a dilemma for economic policy makers attempting to reconcile domestic demand and external relations.

The government avoided a confrontation with the opposition parties, who refused to attend the opening session in an attempt to force Mr. Nakasone to change course on the scheduled income-tax cuts. The prime minister's prepared speech, distributed before its delivery, merely said that he would follow the recommendations of the Advisory Tax Council. Before the speech was actually presented, however, the opposition parties were offered a written pledge by the Liberal Democratic Party (LDP) that the government would submit legislation calling for an income-tax cut in late October. The size of the cut, the LDP promised, would be substantial enough to buoy the economy and implementation would take effect within the year.

In response to questioning in the Diet, Mr. Nakasone admitted that so far the government has not found financial sources to make up for the tax cut, but said that it will not issue more public bonds and does not intend to seek a large-scale indirect tax. The question of compensating for the revenue loss is apparently in the hands of the Advisory Tax Council, which is scheduled to submit a recommendation on October 20 proposing the amount and indicating alternate revenue sources for the tax cut.

Yoshio Nakamura

Japan's GNP Growth Up Modestly in Second Quarter

Two weeks behind the normal announcement date, Japan's Economic Planning Agency (EPA) released preliminary second-quarter GNP figures and revised data for the first quarter. Growth during the April-June quarter was measured at an annualized rate of 3.6 percent, the best performance since the 3.8-percent rate in the third quarter of 1982. The first-quarter revisions left the growth picture for fiscal 1982 (April 1982-March 1983) basically unchanged.

Japan's Real Gross National Product at Constant Prices (1975 Prices)

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1981	FY 1982	July-September 1982	October-December 1982	January-March 1983	April-June 1983(p)
Gross National Product	¥198,068.2 (3.3%)	¥204,603.5 (3.3%)	¥204,511.6 (3.8%)	¥205,333.9 (1.6%)	¥205,794.8 (0.9%)	¥207,633.9 (3.6%)
Personal Consumption Spending	103,090.5 (1.1%)	107,954.6 (4.7%)	107,118.8 (1.7%)	108,613.6 (5.7%)	109,308.8 (2.6%)	109,685.6 (1.4%)
Private Residential Construction	10,653.2 (-2.0%)	10,831.0 (1.7%)	10,514.1 (2.4%)	11,324.7 (34.0%)	11,203.1 (-4.2%)	9,673.8 (-44.4%)
Private Fixed Nonresidential Investment	34,130.3 (4.4%)	34,537.6 (1.2%)	34,725.1 (2.6%)	34,611.1 (-1.3%)	34,289.8 (-3.7%)	34,648.0 (4.2%)
Change in Business Inventories	1,416.7 (-23.1%)	949.3 (-33.0%)	1,143.6 (*)	1,034.0 (*)	171.2 (*)	644.5 (*)
Government Current Expenditures	18,839.4 (3.9%)	19,621.0 (4.1%)	19,509.1 (3.1%)	19,595.3 (1.8%)	20,011.1 (8.8%)	20,071.3 (1.2%)
Government Fixed Investment	18,581.9 (2.9%)	18,889.7 (1.7%)	19,793.6 (24.0%)	18,917.7 (-16.6%)	17,922.2 (-19.4%)	18,848.8 (22.3%)
Change in Government Inventories	-272.3 (15.0%)	-313.8 (15.2%)	-264.7 (*)	-865.5 (*)	-145.9 (*)	-108.8 (*)
Net External Sector	11,628.5 (38.6%)	12,134.1 (4.3%)	11,972.0 (21.1%)	12,103.0 94.4%)	13,034.5 (34.5%)	14,150.7 (38.9%)
Exports of Goods and Services and Factor Income Received	40,001.2 (15.3%)	40,147.3 (04.%)	41,146.2 (10.6%)	39,757.5 (-12.8%)	39,631.7 (-1.3%)	40,798.5 (12.3%)
Imports of Goods and Services and Factor Income Paid	28,372.7 (7.8%)	28,013.2 (-1.3%)	29,174.2 (6.7%)	27,654.5 (-19.3%)	26,597.2 (-14.4%)	26,647.8 (0.8%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

The picture that emerges (see accompanying table) largely confirms the analysis of the economy discussed in the "A" section of this week's JEI Report, written prior to the release of the new data. Growth came mainly as the result of a 38.9-percent annualized growth rate in the net external sector (due to return of growth in exports while imports held steady), government fixed investment (the result of loading a disproportionate share of spending into the first half of the current fiscal year) and private nonresidential fixed investment (reversing a drop in the first quarter). However, the long hoped-for revival in consumer spending failed to materialize, with annualized growth in that sector dropping to only 1.4 percent. Housing investment also continued its dismal performance, dropping at a severe annualized rate of 44.4 percent.

Worries over the health of the economy will continue in Japan as this information is absorbed. The government wants a recovery in the economic growth rate fueled by domestic demand — not by exports. However, private-sector activity is still failing to recover, as indicated by the poor performance of personal consumption and housing. Even business investment is unclear, since second-quarter growth did no more than regain ground lost in the first quarter. So despite the hopes of the government, the recovery in exports really provided the stimulus for the quarter. The stimulative effect of government spending will fizzle in the fall unless a supplementary budget passes and the above economic data will be used to argue for and against added fiscal stimulus.

Edward Lincoln

Employment Picture in Japan Shows Ray of Hope

The employment picture for next spring's college graduates indicates a strong demand for science and engineering majors and a weak job market for graduates with high school or junior-college degrees. According to Nihon Keizai Shimbun's survey of 1,800 companies, about 9 percent more college graduates will be hired next year, but there will be a 12-percent cut in the number of high school graduates recruited. Two-year college and professional school graduates will find the market unchanged. Women with college degrees will be more sought after than previously as a number of companies in the high-technology sector plan to continue recruiting women.

Japanese industry characteristically recruits its permanent employees directly from school and the competition for graduates from top universities is fierce. Under prodding by the Ministry of Education, major companies did agree that they would not interview applicants until after October 1. Nevertheless, students are in the market vigorously collecting information on starting salaries, working conditions and promotion prospects long before the specified date.

While there will be a tighter market for jobs in manufacturing, opportunities in service industries continue to increase, particularly for women who work part-time. There will be more openings in this sector at all levels -- clerical, technical and managerial. Industries planning to hire the highest numbers of school graduates include electronics manufacturers, retail stores, and financial institutions. Unemployment, which is low in Japan compared with other countries, registered 2.5 percent in July, which the Ministry of Labor attributes to improving economic growth. Because of differences in the measurement of unemployment and in labor practices, Japan's unemployment rates cannot be compared directly to the United States.

In the first three months of this year, unemployment rose to 3 percent, but after April, the rate began to fall. Government employment agencies said the effective openings-to-applications ratio has continued to decline, and this year remains steady at

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JEI

REPORT

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JAPAN-KOREA ECONOMIC RELATIONS

Summary

South Korea's relationship with Japan has always been shaky and has only recently begun to improve. In spite of occasional anti-Japanese outbursts, the two countries are moving in the direction of closer economic and political ties. as illustrated by Japan's commitment to provide Korea with a $4-billion aid package. The August ministerial talks in Tokyo were described by Japanese officials as the most constructive effort yet achieved by the two countries. This paper will analyze the bilateral relationship and discuss as well the role played by the United States in the Far East.

Trade and Investment

In 1982, Japan's exports to Korea dropped to $4.9 billion, 14 percent under the previous year; imports fell by 4 percent to $3.25 billion, leaving Japan with a trade surplus of $1.63 billion.[1] Korea is Japan's fourth-largest export market, buying 3.5 percent of total shipments, and supplying 2.5 percent of Japan's total imports. Last year, Korea's increasingly competitive steel and shipbuilding capacities trimmed imports from Japan, while stagnation in world trade further contracted Seoul's purchases of heavy machinery and industrial chemical products. More than 70 percent of Japan's imports from Korea consisted of manufactured products, particularly textiles and apparel, which declined along with machinery and chemical products. Only steel imports recorded a 14-percent increase.

Japan's direct overseas investment in Korea reached $1.3 billion in March 1983, although in the last several years a number of Japanese firms have withdrawn from the market and new capital outlays have been drastically cut because of Korea's tax and export requirement systems. These developments led Korean officials at the recent ministerial talks in Tokyo to press for expanded investment, particularly in heavy industry.

Korea's Domestic Economy

Korea's scarce resources force the country to import 75 percent of its total energy consumption and 55 percent of its food supplies. The government has followed policies that offer incentives for exporters and curbs on imports, while also attempting to move from light manufacturing to heavy and chemical industries.

With the economy recovering, the Bank of Korea showed real growth at 9.6 percent for January-June 1983, compared with 5.4 percent in 1982.[4] While last year's growth was due primarily to government fixed investment and private sector demand, exports are now bouncing back. June's totals jumped 26 percent over year-earlier figures, followed by another 34-percent increase in July. Shipments to the United States and the Middle East led the increase. Steel, textiles and wood products remain sluggish, but electronics, shipbuilding and consumer products continue to be strong. Wholesale prices in June declined, bringing consumer price inflation down from 21 percent in 1981 to 7.3 percent in 1982. Assuming that stable oil prices continue, officials are confident that the economy will take off in 1983.[5]

Korea's postwar economic success has been spectacular. With per-capita income of $1,636, the country ranks near the top of the newly industrializing countries. Knowledge, skills and a favorable international trade environment, combined with access to foreign technology and massive foreign aid have contributed to this performance. Controversial but stable political leadership has sustained economic growth at a high rate.[6]

Even so, the country faces very high levels of foreign debt — the largest in Asia and the fourth largest in the world. By the end of 1982, foreign debt amounted to $37.3 billion. Between January and June of this year, it increased by $874 million. While Korea's credit rating is high because of its highly competitive export industries and economic policy record, the debt buildup is worrisome for the government. It has been reported that the government intends to reduce the debt by cutting down drastically on the number of development projects — from $9.1 billion to $3 billion — and will also make a determined push for buy-Korea procurement and tight limits on overseas borrowing.[7]

Without any oil resources of its own, Korea, like Japan, imports all its oil — 90 percent of it from Saudi Arabia. Almost 80 percent of all electric power is oil-generated. The government is presently trying to rationalize its energy supplies to forestall a repeat of the two oil crises which resulted in rampant inflation, low growth and a widening current-account deficit.[8]

Korea's protectionist trade policies have also come under fire, although it has not yet become as serious an international issue as in the case of Japan. In response, the government is moving slowly to lift import restrictions. In June 1982, an increase in the level of automatic import approvals was announced and the number of items that had been prohibited was reduced somewhat. Import embargoes will be lifted in favor of tariffs, and by next year tariff cuts on more than 700 imported items will be in place. At the same time, however, the government also will impose temporary "tariff coordination taxes" of up to 100 percent in order to prevent a massive flow of imports.[9]

The implications of Korea's closed market were addressed by U.S. Ambassador Richard Walker in Seoul recently. Ambassador Walker warned Korean exporters not to "target" the U.S. market as their destination and to open markets to imports from abroad. He urged the government to continue to liberalize foreign investment policy and to

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correct inadequate patent protection in order to accommodate technology licensing to Korean firms.[10]

Bilateral Relations

Typically, the government and the ruling Liberal Democratic Party (LDP) have pursued a close political relationship with Korea within the broad context of security in the Far East. The opposition parties and the press have tended to attack contacts between the establishment and what they assert is a military dictatorship in Korea. Korea's strong anti-Japanese sentiments are rooted in pre-1945 Japanese colonial rule and compounded by discrimination against Korean residents in Japan and a disproportionate Japanese economic presence in Korea. There has been a sharp split among Japanese opinion leaders on the role of the military in Korea, human rights, and the bilateral relationship's impact on security in the Korean peninsula.

With the death of President Park and General Chun Doo Hwan's election in 1981, the bilateral relationship has taken a more structured course. Since 1965, Korea has run a trade deficit with Japan and has been unhappy about import restrictions on raw silk and silk fabrics. Korean fishing boats in Japanese territorial waters occasionally pose diplomatic problems. From time to time, there are protests over the Korean occupation of Takeshima Island, which is claimed by Japan. The most heated controversy recently involved charges that the Japanese government was attempting to distort history by editing the textbooks describing Japan's actions before and during World War II. The issue was finally settled, but sentiments ran high.

Economic Aid

Japan's official development assistance to Korea reached a cumulative total of ¥627 billion ($2.6 billion) by the end of 1982.[2] Loans have been extended for agriculture, power supply projects, and health and educational facilities. More than 6,000 Koreans have been trained in Japan, while over 1,000 Japanese technicians have provided sectoral expertise and the private sector has agreed to defer payments on a cumulative total of $3.5 billion in exports.[3]

In 1981, after a three-year lapse, talks were held in Seoul, at which time Korea requested a $6-billion aid package, stressing that it considered such assistance a tradeoff for Korean security efforts in the Far East. Japan rejected both the amount and the philosophy. A breakthrough came in early 1983 when Prime Minister Nakasone visited Seoul, the first postwar Japanese prime minister to do so. Agreement was reached on a $4-billion aid package spread over seven years, and in August the foundations of the expanded economic cooperation program were outlined (see JEI Report No. 35B, September 16, 1983).

Characteristics

There is little dispute that historical prejudices have hampered a constructive bilateral relationship. The prewar generation in Korea is not friendly to Japan; the postwar generation associates Japan with the repressive colonial experience taught in school and at home. Elderly Japanese harbor negative ethnic and cultural prejudices against Koreans, although the younger generation is often indifferent. Characteristically, cross-cultural communications suffer both from Japan's ignorance of Korea and Korea's obsession with Japan. An easing of tensions can be anticipated as younger policymakers in both countries begin to balance the practical implications of friendship on regional economic and security policies. This adjustment has actually begun as younger Koreans, many of whom were educated in the United States, have begun to enter the government.

Interestingly, their detachment, while desirable from a political point of view, has undermined the dominance of old "Korea hands" in Tokyo, creating a gap in communications. The change, though as the Japanese press has pointed out, might be a blessing since the traditional approach generated speculation about corruption.

Korea's Foreign Policy

Perhaps the most troublesome bilateral problem is Japan's North Korea policy. For political reasons, the Korean government wants Japan to limit contacts with the North Koreans. Prime Minister Nakasone has said, however, that Tokyo's close relationship with South Korea would not prevent unofficial contacts with North Korea. Both Koreas have been attempting to isolate each other from the international community and win support. Under President Chun's leadership, South Korea continues to emerge as the stronger of the two. As a symbol of its international position, Korea will host a series of international conferences beginning this fall, including the International Parliamentarians' Union, the International Monetary Fund in 1985 and the Olympics in 1986. Whether communist representatives including North Korea will visit Seoul on these occasions is unknown. When Soviet officials recently attended an international conference in Seoul, North Korea reacted sharply. Diplomatic relations took a turn for the better when a highjacked Chinese plane landed in Korea and officials succeeded in persuading China to use the formal "Republic of Korea" in addressing the document. President Chun himself has vigorously cultivated foreign contacts, visiting Washington, the ASEAN nations and Africa. Scheduled for the fall are trips to Burma, India, Sri Lanka, Australia and New Zealand. Korea's top priority is a close defense pact with the United States. The security treaty with more than 50,000 U.S. troops stationed on Korean soil hammers home the message to North Korea, China and the Soviet Union.

Notwithstanding Japanese criticism of Korea's politics, common interests will increasingly hold the relationship together. While Japan is uneasy about the notion that Korea is actually buttressing Japan against communist aggression, Tokyo agrees that Seoul needs economic assistance. Japanese policymakers remain convinced that economic progress in the developing countries is vital. Their goal is to reinforce political stability and build a strong flow of trade.

So far as Tokyo is concerned, though, Korea's economic success poses a dilemma; if the strategy succeeds, the results hold some negative consequences for Japan. Korea's international competitiveness will threaten Japanese market dominance in certain products. The two countries' conditions are very similar. Both lack resources, rely on manufactured exports, and count on trading companies for a large role in the conduct of trade. Korea's construction and shipbuilding industries in a short period of time have become internationally competitive and in the shift from light manufacturing to more upscale technologies, it is clear that Korea is also aiming to export these goods. Requests for Japanese technologies reinforce the concerns of the Japanese business community.

The steel industry is cited as an example: In 1977, steel exports to Korea were more than 1.5 million tons; imports were 24,000 tons. After Japanese-assisted construction of a large steel mill in Pohang, steel exports to Japan began to increase and by 1982 exceeded Japan's shipments by almost half a million tons. Pohang's expansion, which has begun recently, will fuel apprehensions. Nihon Keizai Shimbun reported in August that Japanese steel firms were asked by Korea to provide technological assistance but rejected the request for fear that Korean steel products would flood Japan. They were also concerned that American makers would accuse Japan of assisting Korea's export thrust.

Japan's position as an industrially advanced nation with the second largest GNP in the free world is not endangered for the time being, but increasing competition from the newly industrializing nations will put less-competitive Japanese industries in trouble. Already, Korean-made apparel is dominant in the Japanese market, forcing Japanese manufacturers to seek a niche in the high quality, high-technology segment of the market. There are no signs that the Japanese government will actually impose protectionist measures against these imports, but the resolution of specific issues in many instances will be controversial. Whether individual trade issues escalate into political problems will depend on the stability of the relationship. Considering the emotional constraints, it will be difficult to separate economic and political issues. Just as in Japan's relationship with the United States, foreign economic policy will reflect domestic politics, and it is vital that both countries be well informed at all levels. Considering the paucity of information on Korea the public has acquired thus far, Japanese initiatives to understand Korea are more urgent.

U.S.-Japan-Korea Triangle

In considering the relationship between Japan and Korea, one cannot ignore the shadow of the United States. The security treaties with Japan and Korea are both designed to secure peace in the region. But Japan and Korea are not bound by a similar treaty. As a result, what the United States expects also affects the Japan-Korea relationship. U.S. demands that Japan improve its defense buildup generate a reaction throughout Asia, but particularly in Korea. On the one hand, Koreans are weary of spending nearly 6 percent of GNP on defense, compared with just below 1 percent by Japan. This discrepancy is troublesome and it should be welcome news for Korea that the United States is pressing Japan on this matter. Japan seems to be responding, particularly since Mr. Nakasone assumed office last fall, but at the same time, Korea is suspicious about Japan's potential military strength. As a result, Korean officials seem ready to accept Japan's defense buildup only up to a point, and with the qualification that the United States has control over Japanese intentions.

From the Japanese point of view, the United States is also expected to control the Korean leadership on the human rights issue. Consequently, whenever incidents such as the Kim Dae-Jung affair occur, the Japanese government and press pay close attention to actions taken by the United States. Japanese are divided between criticism of the military leadership and support for a stable government in Korea.

Economically, there is a curious similarity between the U.S.-Japan relationship and the Japan-Korea relationship. Just as Japanese exports have prompted criticism of targeting by Americans and led to protectionist moves in the Congress, Japan now finds itself in a similar position. While not seriously threatened by Korea's economic progress, Japanese businesses feel the heat. The catch-up syndrome is affecting Korea, too. *Business Korea* wrote that "Mainland China, long ignored as an underdeveloped country in semi-seclusion, until a few years ago mainly preoccupied with feeding its vast population of one billion, has emerged, with its spear ready, to engage in the world market as a strong competitor against Korea's industries, particularly in its main export markets of Japan, Hong Kong and the U.S."[11]

Japan's approach to Korea at one time was built around direct investment based on the advantages of lower wages. The acceleration of the wage scale, however, and the restructuring of tax breaks on certain foreign investments have led many Japanese firms to retreat. The Korean government is eager to attract foreign investment, particularly in the high-technology sector, and the investment laws will be a major issue between the two countries. American investment has been substantial, too, and both nations want to see a rapid liberalization of foreign investment regulations.

At the political, economic and security levels, then, the three countries seek to deal mutually with major issues, but the relationship is deeply affected by U.S. strategy in the Far East, Japanese economic power and tensions over North Korea.

Footnotes

[1] Ministry of International Trade and Industry (MITI), White Paper on International Trade (Tsusho Hakusho), 1983, pp. 277-285 (in Japanese). See also Tables 2 and 3.

[2] MITI, White Paper on Economic Cooperation, (Keizai Kyoryoku no Genjo to Mondaiten), 1982, pp. 332-338 (in Japanese).

[3] Ibid.

[4] Nihon Keizai Shimbun, August 19, 1983 (in Japanese).

[5] "Government to Revise 5th 5-Year Economic Plan," Korea Trade and Business, August 1983, p. 4

[6] Glenn A. Lehman, "Korea's Postwar Economic Miracle: A Review," Korea's Economy, July 1982.

[7] Nihon Keizai Shimbun, August 27, 1983 (in Japanese).

[8] Anthony Geber, "Korean Energy and the Economy: Past, Present and Future," Korea's Economy, August 1982.

[9] Nihon Keizai Shimbun, August 27, 1983 (in Japanese).

[10] Business Korea, September 1983, p. 37.

[11] Ibid, pp. 43-47.

For further information, contact Fumiko Mori.

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Table 1: Key Economic Indicators of the Republic of Korea

	1981	1982	January-March 1982	April-June 1982	July-September 1982	October-December 1982
Growth of Real GDP	7.1%	5.3%	5.3%	1.8%	6.7%	5.4%
Agricultural Production	3.0	4.0	n.a.	n.a.	n.a.	n.a.
Industrial Production	10.0	4.5	5.7	2.7	2.7	5.3
Wholesale Prices	20.4	4.8	10.0	4.3	2.3	2.5
Consumer Prices	21.3	7.3	11.7	8.6	4.9	4.4
Balance of Payments (in millions of dollars)						
Current Account Balance	$-4,646	$-2,539	$-314	$-395	$-619	$-1,211
Trade Balance	-3,628	-2,400	-404	-389	-693	-914
Services (net)	-1,519	-618	-19	-118	-81	-400
Unrequited Transfers (net)	501	479	109	112	155	103
Long-term Capital (net)	3,637	1,943	560	69	1,170	144
Short-term Capital (net)	1,090	2,045	-255	656	-609	2,253
Errors & Omissions	-410	-1,444	-693	-268	-133	-350
Overall Balance	-329	5	-702	62	-191	836
Foreign Currency Reserves (end of period; millions of dollars)	2,695	2,820	2,841	2,567	2,604	2,820

Sources: Ministry of International Trade and Industry, White Paper on International Trade, 1983; International Monetary Fund, International Financial Statistics.

Table 2: Japan's Trade with the Republic of Korea, 1980-82

(in millions of dollars)

		Exports (f.o.b.)	Imports (c.i.f.)
1980		$5,368	$2,996
1981		5,658	3,389
1982		4,881	3,254
1982	June	433	253
	July	409	253
	August	384	279
	September	404	326
	October	422	291
	November	373	234
	December	491	240
1983	January	325	240
	February	396	208
	March	481	265
	April	491	268
	May	497	256
	June	540	264

Source: Japan Tariff Association, The Summary Report: Trade of Japan, June 1983.

Table 3: Japan's Trade with the Republic of Korea by Commodity, 1980-82

(in millions of dollars)

	1980	1981	1982	Percentage Change 1981-82
Exports				
Total	$5,368	$5,658	$4,881	-13.7%
Food	82	340	29	-91.4
Mineral Fuels	249	231	199	-13.8
Light Industrial Products	736	854	817	-4.3
Textiles	314	352	329	-6.8
Nonmetallic Mineral Products	97	107	132	23.5
Other	324	394	356	-9.7
Chemicals and Heavy Industrial Products	4,178	4,138	3,728	-9.9
Chemicals	838	841	780	-7.3
Metal Products	1,015	996	753	-24.4
Machinery	2,325	2,302	2,194	-4.7
Reexports	124	94	108	14.5
Imports				
Total	2,996	3,389	3,254	-4.0
Food	584	671	672	0.2
Industrial Supplies	189	111	114	2.3
Mineral Fuels	2	94	65	-30.7
Manufactures	2,182	2,478	2,363	-4.6
Chemicals	236	265	232	-12.6
Machinery	360	379	303	-20.2
Other	1,590	1,834	1,829	-0.3
Reimports	39	35	39	11.9

Source: Ministry of International Trade and Industry, White Paper on International Trade, 1983.

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Bilateral Talks on Decontrol of Japanese Beef and Citrus Imports Make Minor Headway

Bilateral discussions on liberalization of Japan's import quotas on beef, oranges and citrus juice, stalemated for the past year because of the hard-line approach of both sides, resumed in Tokyo September 14. With President Reagan's visit to Japan less than two months away, negotiators for Japan as well as the United States were anxious to make progress on this divisive issue. These hopes were largely dashed. The talks did not break down like the October 1982 negotiations (see JEI Report No. 42B, October 29, 1982), but

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machine tool maker Houdaille Industries, Inc., opinions are mixed concerning the lack of movement. There is a view that this apparent holding pattern is indicative of a change in administration policy vis-a-vis Japan, away from a very hardline, combative approach to one that emphasizes the importance of a healthy alliance. Critics of Japanese trading practices, however, are quick to point out that this is yet another example of Tokyo's footdragging on a matter of economic self-interest.

Barbara Wanner

Planned GM-Toyota Venture Reaches Preliminary Agreement with UAW

The joint U.S. car manufacturing venture proposed by General Motors Corp. and Toyota Motor Corp. scaled one of the two major hurdles in its path last week when negotiators for the automakers signed a letter of intent with the United Auto Workers (UAW) union regarding labor relations. As expected (see JEI Report No. 29B, August 5, 1983), the pact includes concessions by both sides. For their part, union officials accepted the partners' position that the joint venture, to be located at GM's now-idle Fremont, California asembly plant, is a new company. Management will therefore not have to hire workers from the pool of laid-off UAW members on the basis of seniority. In return, though, the two auto giants committed themselves to hiring a majority of the plant's hourly workforce from among former Fremont workers.

This commitment represents a major concession by Toyota executives, who had insisted that the joint venture's success depends on a free hand in hiring. The Japanese motor vehicle manufacturer also apparently lost out on the issue of wage scales since the new company is expected to pay employees wages comparable to those found in the rest of the U.S. auto industry. Negotiators for Toyota and GM did prevail on the issue of job classifications, with the union agreeing to considerably fewer categories than are typical of current Big Three contracts.

While the labor agreement with the UAW eliminates a major potential stumbling block, the GM-Toyota venture must still win antitrust clearance from the Federal Trade Commission (FTC) before it can get off the ground. Originally, the agency had planned to complete its review by June or July. This in-house deadline was later pushed back to September after the FTC asked the two automakers for a large volume of additional documentation. With Toyota just now submitting the last of the material requested, a commission decision is still some time off. While project officials maintain that the delay in FTC approval will not postpone their timetable for car production beginning in late 1984, industry observers say the joint venture will not be able to start up until some time in 1985 because most equipment for the Fremont facility has apparently yet to be ordered.

Susan MacKnight

MITI Revises Energy Forecasts

Rapidly changing circumstances have prompted the Japanese government to revise last April's long-term energy estimate. Japan's energy demands continue to decline as structural changes and conservation efforts pay off. Japan's dependence on imported oil as a percentage of total energy consumption has declined from 78 percent in 1973 to 62 percent in 1982. In August, the Comprehensive Energy Policy Council, an advisory group to the Ministry of International Trade and Industry (MITI), recommended a reduction of energy demand estimates for FY 1990. In FY 1982, energy demand was the equivalent of 380 million kiloliters of oil. The council estimated that in FY 1990 total demand will

Japan's Revised Long-Term Energy Demand and Supply

(as of August 1983)

	FY 1982 Actual		FY 1990 August 1983 Projection		FY 1990 April 1982 Projection		FY 1995 August 1983 Projection	
	Volume	Composition*	Volume	Composition*	Volume	Composition*	Volume	Composition*
Total Demand (million kl)	380.0		430.0-450.0		563.0		480.0-510.0	
Supply Sources								
Coal (million mt)	94.5	18.5%	107.3-113.3	17.6-18.5%	153.0	19.5%	115.2-136.6	17.3-20.3%
Nuclear Power (million kw)	17.34	6.9	35.0	10.5-11.1	46.0	11.3	48.0-50.0	14.9-15.7
Natural Gas (million kl)	27.0	6.9	56.15-60.4	12.2-13.1	68.0	11.5	65.26-68.74	13.1-13.7
Hydroelectric Power (million kw)	33.31	5.6	38.0-38.8	5.7-5.8	45.5	5.0	41.0-43.0	5.6
Geothermal Power (million kw)	0.4	0.1	1.5-2.0	0.3-0.4	6.0	1.0	3.5-4.0	0.7-0.8
New Energy Sources (million kl)	0.9	0.2	7.4-11.8	1.6-2.6	15.0	2.5	15.1-25.7	3.0-5.1
Oil (million kl)	240.0	61.8	240.0-250.0	52.0	290.0	49.1	240.0-250.0	48.0
Total Supply (million kl)	389.0	100.0	450.0-480.0	100.0	590.0	100.0	500.0-550.0	100.0

*Converted into oil equivalent. May add up to more than 100 percent because of the ranges projected.

Source: Ministry of International Trade and Industry, MITI Gazette (Tsusan Koho), August 24, 1983.

reach the equivalent of 430-450 million kiloliters of oil. The revision upgraded the use of coal and nuclear energy slightly, while natural gas usage was projected to fall. On the other hand, since dependence on oil is expected to lessen, the ratio of oil will fall to less than 50 percent of total demand.

The council said that OPEC's decision to cut the price of oil in March changed assumptions underlying the estimate. OPEC's production has declined by 40 percent since 1979 and its share of world supply has dropped from 59 percent in 1979 to 45 percent in 1982. At the same time, non-OPEC countries have steadily increased production.

With rising costs in oil and other energy resources, the Japanese government is now seeking a balance between cost and energy security factors. After the first oil crisis, Japan tended to concentrate on procurement rather than on prices. But tight government budgets have forced officials to reconsider their priorities. Recently, the council recommended shifting oil storage from expensive tankers to land facilities. A selective approach to energy development is also recommended, and coal liquefaction and gasification will be upgraded.

Declining demand has been attributed in large part to the industrial response. Dependence on oil in the manufacturing sector fell from 38 percent of total energy consumption in 1977 to 28 percent by 1981, saving more than ¥300 billion ($1.2 billion). The saving was also apparent in the electric power industry where utility companies have been shifting to other energy sources. However, the major investment by the industry has been completed and there is not expected to be further dramatic progress. The latest revision of long-term energy supply and demand is provided in the accompanying table.

Fumiko Mori

Nakasone, Opposition Square Off Over Defense

Prime Minister Nakasone took the offensive last week in challenging the Japan Socialist Party's (JSP) "unarmed neutrality" concept. In a heated Diet debate, the prime minister engaged Masashi Ishibashi of the JSP, the largest opposition party, in a two-hour discussion — the first time a prime minister has openly discussed his defense philosophy. The JSP official line is that hardware defenses in the nuclear age are meaningless for Japan once it is attacked. The only path, according to Mr. Ishibashi, is non-alliance. The party opposes the U.S.-Japan Security Treaty and advocates its abolition.

Mr. Nakasone attacked the unarmed neutrality concept as unrealistic and dangerous, asserting that the balance of power and the deterrent it represents has been a stabilizing factor in the Far East. He maintained that the U.S.-Japan security alliance and improvements in Japan's Self-Defense Forces are the most effective protection for Japan. Putting aside ideological differences, Mr. Ishibashi said he was not convinced that the United States would honor the security treaty by sending troops in time to rescue Japan from foreign aggression, and that it would be impossible to protect Japan with Self-Defense Forces numbering only 240,000.

The prime minister took Mr. Ishibashi to task for implying that surrender was preferable to fighting in his book, On Unarmed Neutrality. Mr. Nakasone emphasized that political leaders who espoused such statements invited foreign powers to regard Japan as an easy target. It was obvious that Mr. Nakasone was referring to the Soviet Union. While the two leaders are well known for their policy differences, the fact that the issue was singled out for debate was a radically new political experience. Mr. Nakasone's

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JAPANESE INDUSTRIAL POLICY WITH A TWIST: COMMERCIAL AIRCRAFT

Summary

Many Americans, awed by Japan's international success in a growing list of high-technology industries, automatically assume that when Japanese companies start playing catch-up in a particular industry, the U.S. competition is doomed. Concern might be warranted in industries like semiconductors or computers; it is not in commercial aircraft. Japanese aircraft manufacturers lack the range of skills needed to independently design, develop, manufacture and market commercial airliners and high-thrust jet engines. More important, even if aircraft makers and the government were willing to spend the money to close the technology gap, the Japanese market is too small to support a full-fledged domestic industry. These problems dictate the aircraft industry's current strategy of learning the airframe and engine businesses through collaboration with foreign builders. The experience and technology gained from participation in international joint ventures will not be used to mount an independent challenge to American and European aerospace companies, Japanese aircraft executives insist. Their goal, they say, is to become a genuine partner in the international consortia that are an increasingly prominent feature of the world aircraft business.

International partnerships are marriages of necessity for Western aircraft manufacturers. Launching a new plane or engine today is such a high-stakes gamble that no company -- not even the technically and financially formidable Boeing Co. -- feels that it can afford to shoulder the risk alone. U.S. makers, in particular, recognize that they might be helping to create future competitors by including Japanese aircraft companies in their projects, but this is a chance they are willing to take to spread the risks of bringing new products to the market. Western aircraft builders can also justify their decisions to go the joint-venture route with Japanese firms by arguing, as many industry analysts do,

> *that neither the world airframe market nor the international engine business is large enough to profitably support the three current contenders in each, let alone a Japanese challenger.*

Aircraft: Opportunities and Obstacles

Development of an internationally competitive civil aircraft industry anchored on commercial jetliners has been a top objective of Japanese industrial policy for the past 20 years or so. It is not hard to see why. Aircraft research and development provide a seedbed for new processes and products applicable in a wide range of other fields, while the industry's technical requirements stimulate innovation in an equally diverse number of sectors. Airplanes also fit the profile of industries the government believes are crucial to Japan's future economic health because they have a high value-added content — twice that of cars or steel, for example. Another attraction is that expanding world passenger traffic should continue to provide aircraft manufacturers with a growing volume of orders, both for additional transports and replacement equipment. Moreover, commercial jetliners are one product where Japanese manufacturers would be insulated for the foreseeable future from the competition of newly industrialized countries. A developed domestic industry would, in addition, cut the big trade deficit Japan runs each year in aircraft, while using few natural resources and generating little pollution. Finally, the intangible factor of national prestige has attracted Japanese industrial policymakers to the commerical aircraft industry.

These attractions initially blinded Ministry of International Trade and Industry (MITI) officials to the realities of the international market for large jet transports. During the 1960s and the first years of the next decade, economic planners were convinced that aircraft could become a pillar of Japan's industrial structure in the 1970s with government guidance and financial assistance. The results of the YS-11 program over the same period shook this conviction, however. This twin-engine turboprop, designed to carry 52 to 60 passengers on short routes, was a technical success but a commercial failure. With only 182 planes coming off the assembly line by the end of 1973, the government, which had financed half of the cost of the YS-11's development and production, reportedly recouped just part of its investment. (For information on the YS-11 program and the postwar history of Japan's civil aircraft industry, see Council Report No. 2, January 11, 1980.)

While shaken by the failure of Japan's first foray into the world market for commercial aircraft, MITI did not abandon its goals for the industry. It did, however, push back the timetable for development of a full-fledged domestic industry until the 1980s. More important, the YS-11 experience triggered two major shifts in government policy toward the civil aircraft industry. On the financial-support side, policymakers decided that the government would limit its funding to research and development, leaving the risks of production and marketing to the manufacturers. They also concluded that development of a domestic capability in the design, development, production and sale of commercial jetliners hinged on the participation of airframe and engine makers in international joint ventures — a departure in Japanese industrial policy that sets aircraft apart from other high-technology industries singled out for attention by the government.

MITI's more realistic evaluation of the chances of the Japanese aircraft industry becoming internationally competitive on its own in large jet transports has been matched lately by a new appreciation of how long it will take domestic manufacturers to catch

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up with their competitors in the United States and Europe, even with help. Instead of talking about this decade or the next one, the ministry is now looking to 2010 as the target year for a world-class civil aircraft industry. Its overly optimistic 1975 prediction of an 11-percent Japanese share of the free world civilian aircraft market by 1980 has also been discarded, replaced by a more credible projection of a 10-percent slice of international sales around the turn of the century.

These new scenarios reflect a belated admission of the enormous roadblocks in the path of Japanese aircraft builders. To start with, the industry has limited capability to independently design and develop jetliner airframes and high-thrust aircraft engines. A shortage of experienced engineers and inadequate aerospace research and test facilities account for part of this problem. There is, in addition, little technological spinoff from military production since Japan's five fuselage makers and its three engine manufacturers are engaged in licensed production, not development work. (For a discussion of Japan's military production programs, see JEI Report No. 19A, May 14, 1982.) Japanese contenders in the large jet transport field also come up short on manufacturing skills, largely because limited production runs of military hardware, the industry's predominant output, restrict the transfer of these techniques to the civilian side of the business. Moreover, the industry is inexperienced in international marketing and after-sales service.

With time and help from foreign aircraft manufacturers, the barrier to international competitiveness created by inexperience might be overcome. The same cannot be said for the obstacle presented by a domestic market too small to support a Japanese aircraft industry. Japanese airlines carry only about 5 percent of the world's passenger traffic; carriers based in the United States, in contrast, account for roughly 35 percent, using a fleet of planes approximately ten times larger than Japan's. Consequently, Japanese aircraft builders, unlike other manufacturers of technology-intensive products, do not have a strong home sales base from which to launch an overseas marketing effort. Conversely, protection behind trade barriers has never been viewed by the government as a viable strategy for promoting the development of the industry.

Inexperience and a small domestic market are not the only obstacles impeding the progress of Japan's commercial aircraft industry. Any new entrant in the field of large transports faces formidable competition from Boeing Co., McDonnell Douglas Corp. and Airbus Industrie S.A., the European government-supported aircraft development, manufacturing and marketing consortium. Competition is no less intense in jet engines, with United Technologies Corp.'s Pratt & Whitney aircraft division, General Electric Co. and state-owned Rolls-Royce Ltd. fighting it out for market share.

The high-risk nature of the jetliner business is also a major deterrent, since the lessons Japanese aircraft makers learned firsthand with the YS-11 have been reinforced by the recent track records of foreign builders. Lockheed Corp. has abandoned the commercial aircraft market with the failure of its L-1011 TriStar. McDonnell Douglas, which makes the big-selling DC-9, has lost money for the past five years on commercial airliner sales, mainly due to problems with the now-discontinued DC-10. Airbus Industrie is only able to survive in the commercial aircraft business because the participating governments are willing to cover its reportedly huge losses. Even Boeing, the world's most efficient aircraft builder, has seen its profits shrivel up the past two years.

Coming up with the enormous amounts of money needed to launch a new jetliner airframe or engine is a big stumbling block for Japan's industry as well. The bill for designing, developing, testing and certifying a new airframe is generally pegged around \$1.5 billion, while getting the plane into full production costs another \$1.5 billion or so. The price tag for bringing a high-thrust engine to the market is equally stiff — roughly

$1.5 billion. With the Japanese government only willing to underwrite research and development and then just part of these costs, Japanese aircraft manufacturers maintain that they do not have access to the funds required for a solo entrance into the large transport business.

These problems have capped Japan's aircraft production at a modest level and steered it toward military equipment (see Tables 1-3). Production of aircraft, engines, subassemblies, parts and related accessories totaled under $1.5 billion in 1982. While repair work added roughly $0.3 billion to this figure, the combined total represented just 4.2 percent of U.S. shipments — in fact, a slightly lower ratio than five years before. Moreover, 75.9 percent of Japan's 1982 output consisted of hardware manufactured for the Defense Agency, although the military share was ten points lower than in 1978.

For individual Japanese companies, the aircraft business remains a side line. Mitsubishi Heavy Industries, Ltd., the top producer, had aircraft sales of just $789.2 million in FY 1982, and number-two Kawasaki Heavy Industries, Ltd. generated only $401.4 million in aircraft revenues over the same period. Boeing, in contrast, had sales of $9 billion in 1982. With the start of full-scale licensed production of F-15 fighters and P3C antisubmarine patrol planes, however, aircraft are becoming an increasingly important sales earner for Japanese manufacturers. At Mitsubishi, the prime contractor for the F-15, aircraft contributed 12 percent of sales in FY 1982 versus 9.4 percent the year before, while Kawasaki, the major P3C contractor, saw its aircraft sales climb from 7.1 percent of the total to 14.5 percent.

Learning the Airframe Business

While MITI and the aircraft companies have recognized for at least the past decade that significant growth on the commercial transport side of Japan's aircraft business is tied closely to the participation of domestic manufacturers in international joint ventures, this strategy is just starting to pay dividends in terms of increased production. The joint-venture route was first explored in the early 1970s. At that time, the government and the industry realized that their initial plans for a YS-11 follow-up project, codenamed the YX project, had been overtaken by the advent of wide-body airliners. Project specifications were revamped from a small (90-passenger), local transport to a twin-engine, wide-body, medium-range jetliner, even though designers were aware that such a plane was beyond the capability of Japan's industry, both technically and financially. The hoped-for solution was to develop and build the YX in collaboration with American or European aircraft manufacturers. Boeing, McDonnell Douglas and Lockheed all made proposals, but they did not get off the ground, largely because the Japanese government offered to finance only a fraction of the YX's estimated ¥100-billion ($416.7 million at ¥240=$1) development costs.

The YX project languished until the fall of 1977 when Boeing agreed to work with Mitsubishi, Kawasaki and Fuji Heavy Industries, Ltd. — grouped into the Civil Transport Development Corp. (CTDC) — as well as Aeritalia S.p.A. — an Italian aerospace consortium — on the development and production of the 767, a twin-engine, wide-body, medium-range airliner seating 211 to 220 passengers. The Japanese team, along with its Italian counterpart, has a status in between equity partner and subcontractor on the 767 project, Boeing's first program with non-American risk-sharing participants. The CTDC did not share full development costs; neither was it involved in preliminary design and development work or in marketing and sales of the technically advanced 767, which entered commercial service in September 1982. On the other hand, the Japanese trio is guaranteed work, at an agreed price, on the first 500 planes produced.

The three Japanese participants are responsible for the 767's body sections and wing fairings. Mitsubishi builds the aft fuselage panels and entry, service and cargo doors, while Kawasaki produces the forward and center fuselage panels as well as the wing ribs; Fuji makes the wing-to-body fairings and the main landing-gear doors. Together, these subassemblies represent about 15 percent of the 767's airframe costs, as do the parts being built by the Italian consortium, which include much of the tail, the wing leading edge and some control surfaces. On the basis of total project costs, including engines, electronics and accessories, the contribution of the Japanese and Italian participants drops to roughly 7 percent each.

Total Japanese development costs for the 767 are estimated at ¥32 to ¥34 billion ($133.3 to $141.7 million at ¥240=$1) over the five years through March 1983. Of this amount, the government put up ¥14,652 million ($61.1 million) in the form of a hojokin or success-conditional loan. U.S. policymakers consider loans such as this one to be subsidies on the grounds that no high-technology industry in Japan has ever repaid this type of R&D funding. Their assessment might have to change, however, since Mitsubishi, Kawasaki and Fuji paid back ¥3,870 million ($16.1 million) of the principal this past spring, using money from the proceeds of the sale of subassemblies for five 767s to Boeing.

How much have the Japanese participants learned about the large transport airframe business for their development money and the additional ¥20 billion or so ($83.3 million) spent on facilities and tooling to produce 767 subassemblies? They have certainly gained added experience in the design and development of fuselages, thanks to Boeing's considerable input, and their manufacturing skills in at least this area of the airframe have been honed. Most industry watchers, though, characterize these gains as incremental increases in knowledge and ability, pointing out that the 767 sections made by the Japanese side do not involve particularly sophisticated design or production technologies.

While the benefits to Japanese airframe makers might be limited, this has not stopped some analysts from wondering whether Boeing is giving a future competitor a big helping hand in exchange for less risk exposure. This question is likely to come up again — and more loudly than before — because the aerospace giant and the Japan Aircraft Development Corp., the CTDC's successor, are fairly close to signing a memorandum of understanding for a fuel-efficient, quiet plane in the 150-seat range, designated the 7-7 by Boeing and the YXX by Japan.

MITI and the aircraft industry started discussing the YXX project with potential foreign partners in 1980. Proposals from McDonnell Douglas and Airbus Industrie as well as Boeing were considered. It is generally assumed that the Seattle firm had the inside track from the beginning, but the talks have dragged on. One holdup has been contract terms. The Japanese side wants to be a full-fledged partner in the project, involved in all phases from design to marketing, not just a risk-sharing participant. Boeing is apparently amenable. In exchange, though, it reportedly asked Mitsubishi, Kawasaki and Fuji to cover 30 percent of the estimated $1.5-billion cost of designing, developing, testing and certifying a new 150-seat airliner. The Japanese trio initially balked at this request, but later proposed a 25-percent share, to be split, it appears, with at least one other company, probably Nissan Motor Co., Ltd. This offer is thought to be acceptable to Boeing, which is still talking to other foreign makers like Aeritalia about participation in the 7-7 program.

Boeing is in no rush to move ahead with the 7-7 project. The huge launch costs of the 767 and 757 (an all-new twin-engine, standard-body jet designed to carry 178 to 186 passengers on medium-to-short routes) have been a big financial drain on the company, which has firm orders now for only 185 767s (including 34 from Japan's international carrier and its main domestic airline) and 129 757s. Development of a stretched version of the 737 short-haul airliner, scheduled for rollout next January, and the introduction earlier this year of a new jumbo 747 model have also added to Boeing's negative cash flow.

For that matter, neither are Boeing's potential Japanese partners in a hurry to start work on a new airframe. They, too, are short of funds. Slow demand for the 767 has kept production of subassemblies far below initially anticipated levels. Moreover, the companies are only now starting to recoup some of the money spent to get the F-15 and the P3C into production.

The delays are not expected to put the Boeing-Japanese team at a big competitive disadvantage with Airbus Industrie, the only airframe builder close to bringing out a 150-seat transport, because the airlines do not have the money to buy new planes from any manufacturer. (The 120 members of the International Air Transport Association had a combined operating loss of $3.1 billion over the 1980-82 period, with American carriers alone losing $1.3 billion during this time.) Moreover, with fuel prices dropping in 1982 and again this year, the airlines have less incentive to sign up for the next generation of fuel-efficient planes. Instead, they are sticking with their present fleets, making improvements like fitting new engines to save fuel, or tapping the large supply of good used aircraft.

While waiting for the market to firm for a quiet, efficient 150-passenger plane, Boeing is pushing ahead with initial design work. The Japan Aircraft Development consortium is also doing some independent design studies, supported by ¥4,088 million ($17 million at ¥240=$1) in loans from the government since FY 1981. There is no indication of how much more development money the government is willing to spend for the YXX project. Japanese aircraft manufacturers want MITI to be more generous than it was on the YX program since they will be shouldering larger risks. Some sources report, though, that the ministry will only underwrite that part of the YXX development work new to the Japanese participants.

Gaining Experience in Engines

Uncertainties surrounding the development of a new, high-efficiency turbofan jet engine for a 150-passenger airliner are also holding up the 7-7 program as well as Airbus Industrie's proposed A-320. Back in 1980, a joint venture between Japan's trio of aircraft engine manufacturers — Ishikawajima-Harima Heavy Industries, Ltd. (IHI), Kawasaki and Mitsubishi — and Rolls-Royce had hoped to be the leading candidate to supply the engine for the next generation of short-range transports. At that time, Rolls-Royce and the Japanese Aero Engines Corp. began development work on an engine for a 130-seat plane, using as their starting point the technology gained from Japan's FJR 710 fanjet program, an 11-year (FY 1971-FY 1981), ¥19.8-billion ($82.4 million at ¥240=$1) project funded entirely by the government under the National Research and Development Program (see JEI Report No. 42, November 6, 1981).

By early 1982 the consortium had two demonstration models of the 20,000-pound-thrust RJ 500 turbofan engine ready for testing. In the interim, though, airlines began to push for a plane in the 150-seat range, which requires an engine with a thrust of about 23,000 pounds. Redesigning the RJ 500 for a bigger plane would have at least doubled the British-Japanese project's development costs, initially estimated at ¥140 billion ($585.3 million). Neither Rolls-Royce nor the three Japanese manufacturers were willing to increase their financial exposure to this extent. Moreover, MITI, which had lent the Japanese team ¥10 billion ($41.6 million) for development work during the FY 1980-FY 1982 period and had earmarked another ¥4.7 billion ($19.6 million) for development loans in the FY 1983 budget, apparently had reservations about the project's greater risks.

With the Japanese trio's support, Rolls-Royce sought out a third partner for their venture. Both Pratt & Whitney and General Electric vied for the spot; Pratt & Whitney won it. The reason why the world's number-one engine maker was willing to set aside traditional rivalries and collaborate with third-ranking Rolls-Royce and the Japanese is not hard to find — it cannot afford to proceed independently with a 150-seat-plane engine. The company is just finishing up development and certification tests for the PW 2037 engine, an all-new, 37,600-pound-thrust powerplant for the Boeing 757. Earlier, it modified its family of JT9D engines for the 767, while late last year plans were announced for the PW 4000 series of 48,000-to-60,000-pound-thrust engines.

After jockeying over questions like design specifications, work assignments and financial shares, Pratt & Whitney and Rolls-Royce announced plans this past March for a five-nation project to design, develop, produce and market a 23,000-pound-thrust engine. The final arrangement, signed in mid-September, calls for Pratt & Whitney to head one team of companies, including Motoren und Turbinen Union Munchen G.m.b.H. of West Germany and Fiat Aviazione S.p.A. of Italy, both of which were risk-sharing partners (11 percent and 4 percent, respectively) in the PW 2037 program. Rolls-Royce will lead the other group, made up of its three Japanese partners on the RJ 500 project. The two team leaders will each underwrite 30 percent of the total development costs, generally pegged by industry analysts at $1.5 billion-plus, while the Japanese trio will put up 23 percent.

The five-nation consortium must win government approval, particularly in the United States and the United Kingdom, before it can start design work on the new engine, which is expected to incorporate features of the PW 2037 and the RJ 500 and to be certified for commercial service in 1988. One of the questions the U.S. Department of Justice must resolve is whether the joint venture reduces worldwide competition in jet engines. Pratt & Whitney executives maintain that the project will increase competition since right now only one other group, headed by General Electric, has plans to develop an engine for a 150-seat plane. Approval in the United States also reportedly hinges on the amount of technology transfer in the project. Spokesmen for Pratt & Whitney have been quoted as saying that the collaboration has been structured in such a way that no technology will have to be exported. The Pratt & Whitney team will work on the turbine and combustor portions, while Rolls-Royce and the Japanese group will develop the engine's front end, including the fan and the compressors.

Justice Department approval is expected, possibly this year, but the agency, which has been looking at the project for the past year and a half, has not tipped its hand. If Pratt & Whitney's participation is turned down, there is no guarantee that Rolls-Royce and its Japanese partners will go ahead with development of an engine for a 150-seat plane. MITI is reportedly willing to finance (presumably through loans) half of the development costs to be covered by the Japanese participants in the five-nation project — an amount estimated at $143 million. It is unlikely to go beyond this figure, having already spent a similar amount on jet-engine development work. This would doom the chances for continuation of an independent British-Japanese project, since IHI, Kawasaki and Mitsubishi say they cannot afford a larger share of development costs and the British government is not anxious to finance loss-plagued Rolls-Royce in the high-thrust end of the market.

Partner or Rival?

Are Western airframe manufacturers and aircraft engine makers helping to create their future competition by tying up with Japanese companies in international joint ventures? Mitsubishi and other Japanese builders maintain that their objective is limited to gaining the experience and technical capability to be partners in all aspects of the airframe and engine business, from design and development through marketing and after-sales service. MITI industrial policymakers might have more ambitious ideas in mind for the Japanese industry, company officials admit, but budget constraints hamper the ministry's ability to translate its "visions" into reality.

American and European aerospace executives do not discount the possibility that their strategy might backfire, but they are fairly confident that the Japanese aircraft industry is, in fact, more interested in being a long-term partner than a future competitor. Even if they are wrong about Japan's intentions, add these officials, American and European aircraft makers have at least 20 years of breathing room. In the meantime, the Japanese industry's interest in learning the airframe and engine business and the need for Western builders to spread the risks of their enormous investments make international partnerships the only viable option.

For further information, contact Susan MacKnight.

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Table 1A: Aircraft Production in Japan, 1978-82

(in thousands of dollars*)

Year	Total	Customer Defense Agency	U.S. Military	Domestic Market	Export Market
1978	$1,074,325	$928,232	$0	$100,822	$ 45,271
1979	984,467	842,247	0	83,673	58,547
1980	928,829	758,703	4	90,311	79,810
1981	1,037,227	790,451	0	84,629	162,147
1982	1,484,883	1,127,155	0	119,145	238,583

Table 1B: Aircraft Repair in Japan, 1978-82

(in thousands of dollars*)

Year	Total	Customer Defense Agency	U.S. Military	Domestic Market	Export Market
1978	$215,005	$176,122	$6,388	$31,502	$ 993
1979	242,274	194,519	6,411	40,490	853
1980	235,568	186,509	7,916	39,352	1,791
1981	251,582	201,791	9,976	37,612	2,204
1982	272,809	209,645	8,500	52,921	1,743

*The following average annual exchange rates, which reflect the midpoint on the Tokyo spot foreign exchange market, were used to convert the yen production figures: 1978, ¥210.40; 1979, ¥219.14; 1980, ¥226.75; 1981, ¥220.54; and 1982, ¥249.05.

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics 1982

Table 2A: Aircraft Production by Product in Japan, 1982

(in thousands of dollars)

		Customer		
	Total	Defense Agency	Domestic Market	Export Market
Aircraft	$434,917	$380,486	$ 0	$ 54,431
Fixed-Wing Planes	374,595	337,105	0	37,490
Piston-Engine Planes	1,522	1,522	0	0
Turbojet Planes	286,143	253,865	0	32,279
Turboprop Planes	86,930	81,719	0	5,212
Helicopters	51,841	34,901	0	16,940
Other Aircraft	8,480	8,480	0	0
Airframe Parts and Equipment	542,678	335,443	57,531	149,705
Engines and Parts	303,345	272,564	26,802	3,979
Engines	185,501	181,164	4,288	48
Piston Engines	0	0	0	0
Turbojet Engines	162,638	162,574	64	0
Turboprop Engines	12,728	12,728	0	0
Turboshaft Engines	7,300	5,730	1,570	0
Other Engines	2,835	133	2,654	48
Engine Parts	117,844	91,399	22,514	3,931
Propellers and Rotors	8,031	8,010	20	0
Accessories	62,373	48,781	7,749	5,842
Instruments	66,481	47,484	17,691	1,305
Training Devices	17,627	16,194	1,433	0
Support Equipment	49,432	18,193	7,918	23,321
Total Production	1,484,883	1,127,155	119,145	238,583

Table 2B: Production of Aircraft and Aircraft Engines in Japan, 1982

(in units)

		Customer		
	Total	Defense Agency	Domestic Market	Export Market
Aircraft	108	56	0	52
Fixed-Wing Planes	86	36	0	50
Piston-Engine Planes	3	3	0	0
Turbojet Planes	61	25	0	36
Turboprop Planes	22	8	0	14
Helicopters	22	20	0	2
Other Aircraft	15	15	0	0
Engines	116	109	7	0
Piston Engines	0	0	0	0
Turbojet Engines	65	64	1	0
Turboprop Engines	21	21	0	0
Turboshaft Engines	27	21	6	0
Other Engines	3	3	0	0

Source: Japan, Ministry of International Trade and Industry, Yearbook of Machinery Statistics 1982

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JEI

REPORT

No. 40B
October 21, 1983

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Impact of the Tanaka Verdict

Former Prime Minister Kakuei Tanaka and four other defendants in the Lockheed trial were found guilty by the Tokyo District Court in a decision handed down on October 12. Mr. Tanaka, charged with receiving bribes from Lockheed Corp. to influence All Nippon Airways' (ANA) decision to purchase the Lockheed airbus, was sentenced to four years in prison without probation and fined ¥500 million ($2.1 million). All the defendants appealed immediately and Mr. Tanaka was released on bond after a few hours. No basis for the appeal was disclosed.

STATISTICAL SUPPLEMENT

Trade and Payments Data

(in millions of dollars unless otherwise indicated)

	1981	1982	January-August 1982	January-August 1983	June 1983	July 1983	August 1983
Japan's Balance of Payments							
Trade Balance	$ 19,967	$ 18,079	$11,071	$18,950*	$ 2,772*	$ 3,762*	$ 2,452*
Exports (f.o.b.)	149,522	137,663	92,511	92,991*	12,143*	12,499*	11,493*
Imports (f.o.b.)	129,555	119,584	81,440	74,041*	9,371*	8,737*	9,041*
Current Account Balance	4,770	6,850	3,126	11,772*	2,215*	2,855*	1,374*
Long-Term Capital (net)	-9,672	-14,969	-14,611	-10,168*	-1,622*	-1,799*	-1,931*
Overall Balance	-2,144	-4,971	-7,567	2,916	1,384	874	-27
International Reserves (end of period)	28,403	23,262	24,416	24,398	24,782	24,939	24,398
Japan's Customs Clearance Trade							
Trade Balance	8,741	6,900	3,163	11,966*	1,886	2,848	1,662*
Exports (f.o.b.)	152,030	138,831	93,483	93,656*	12,289	12,629	11,620*
Cars	18,445	18,015	12,147	12,731*	1,625	1,716	1,249*
Steel	16,669	15,645	11,052	8,172*	1,105	1,028	1,061*
Imports (c.i.f.)	143,290	131,931	90,320	81,690*	10,404	9,780	9,958*
Crude Oil	53,343	46,274	31,303	25,981*	2,940	2,751	2,723*
Japan-U.S. Trade							
Trade Balance	13,312	12,151	7,885	9,942*	1,417	1,525	1,343*
Exports (f.o.b.)	38,609	36,330	24,509	26,015*	3,685	3,689	3,392*
Imports (c.i.f.)	25,297	24,179	16,624	16,073*	2,267	2,164	2,049*
Yen-Dollar Exchange Rate							
Tokyo Spot Market (end of period)	¥219.90	¥235.00	---	---	¥239.70	¥241.70	¥246.60
U.S.-Japan Trade							
Trade Balance	-15,789	-16,778	-12,408	-12,543	-1,348	-1,637	-1,834
Exports (f.a.s.)	21,823	20,966	13,976	13,761	1,936	1,920	1,800
Industrial Supplies	8,983	9,173	6,141	5,590	701	706	709
Food and Feed	5,896	4,971	3,311	3,504	439	530	544
Capital Goods	4,767	4,434	2,977	3,116	605	459	339
Consumer Goods	1,318	1,356	919	920	122	124	109
Imports (Customs)	37,612	37,744	26,384	26,304	3,284	3,557	3,634
Automotive Products	12,950	12,890	9,014	9,748	1,295	1,253	1,328
Industrial Supplies	7,179	6,795	5,105	3,444	398	453	478
Consumer Goods	8,340	7,842	5,305	5,171	610	694	770
Capital Goods	8,589	9,530	6,459	7,500	928	1,099	996

*Preliminary

STATISTICAL SUPPLEMENT

Japanese Economic Indicators

(percentage change from year-earlier period unless otherwise indicated)

	1981	1982	January-July 1982	January-July 1983	May 1983	June 1983	July 1983
Discount Rate (end of period)	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%	5.5%
Outstanding Money Supply	8.9%	9.2%	9.8%	7.5%	7.5%	7.7%	7.1%
Industrial Production	1.0%	0.3%	1.7%	0.7%	2.2%	1.9%	2.4%
Manufacturing Operating Rate	-4.6%	-2.9%	-2.2%	-1.3%	0.0%	0.3%	0.4%
Number of Bankruptcies	-1.5%	-2.8%	-3.1%	6.9%	8.4%	16.1%	5.8%
Residential Construction Starts	-9.2%	-0.5%	-6.2%	-1.1%	-11.2%	-0.1%	-3.4%
Job Openings to Applications (ratio)	0.68	0.61	0.62	0.59	0.57	0.58	0.57
Nominal Wages	5.3%	4.5%	4.7%	4.6%	3.5%	4.2%	3.8%
Labor Productivity	2.4%	1.0%	2.3%†	1.0%†	3.9%	n.a.	n.a.
Wholesale Prices	1.4%	1.8%	2.0%	-1.5%	-1.9%	-2.0%	-2.4%
Consumer Prices	4.9%	2.7%	2.6%	2.2%	2.7%	2.0%	2.2%
Yen-Based Export Prices	1.2%	3.9%	5.4%	-5.8%	-4.9%	-6.5%	-7.0%
Yen-Based Import Prices	1.6%	7.9%	7.0%	-4.8%	-6.7%	-8.3%	-10.1%

†Through May of each year only.

For Japan's most recent GNP figures, see JEI Report No. 36B, September 23, 1983.

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REPORT

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JAPAN'S SHORT-TERM FINANCIAL MARKET

Summary

Japan's short-term financial market has undergone major changes since the structure of the economy and flow of funds forced the formerly limited interbank market to expand and liberalize. The emergence of the "gensaki" market, where bonds are traded under resale or repurchase agreements free of the intervention of monetary authorities, gave large corporations the opportunity to invest at market rates and supplied borrowers with additional sources of funds. The liberalized short-term financial market has led to active interest-rate arbitrage that suggests the possible emergence of a domestic market pattern similar to the U.S. system. The new Foreign Exchange and Foreign Trade Control Law has also tended to activate interest-rate arbitrage between Japanese and overseas markets.

Overview

Japan's short-term financial markets consist of the call money and bill discount markets, the gensaki market and the market for certificates of deposit. In recent years the importance of these markets has been growing rapidly. The ratio of funds in these accounts to the gross national product increased from 2.5 percent in 1965 to 5.8 percent in 1975 and 7.1 percent in 1980. The call money and discount markets are interbank transactions to supply financial institutions with temporary funding at interest rates that fluctuate according to the discount rate set by the Bank of Japan as well as by its general monetary policy stance. The call and discount markets are conducted exclusively between private financial institutions; private corporations and individuals are not permitted to participate directly in these markets.

The development of the open market (gensaki and certificates of deposit), in which nonbanking corporations can invest and borrow, has been rapid. Two factors account for this interest: the gensaki market has provided a superior alternative to short-term bank deposits; and the rising government debt necessitated growing markets. The open markets have increased their share of the total outstanding in the short-term markets from 21.4 percent in 1975 to 41.0 percent in 1980, while interbank markets (call and discount) have lost their 78.6-percent share (1975), dropping to 59.0 percent in 1980 (Table 1).

Interbank Market

The interbank market enables financial institutions to borrow on a short-term basis to meet their reserve requirements. Participants are limited to those who deal with the central bank. Thus far, the system is similar to the federal funds market in the United States. But in Japan, the city banks (the 13 largest banks in Japan) have also been borrowers in the short-term markets, providing capital for industry in the high economic growth period. The Bank of Japan made direct loans to the city banks through the two interbank money markets — the call and bill discount markets. However, as the economy slowed, the interbank market declined in importance. Each of these two types of transactions is reviewed here.

Call Market — Call transactions are those negotiated by financial institutions. Private corporations and individuals are not permitted in this market. Through money dealers (tanshi gaisha), who act as brokers, surplus savings held by financial institutions are funneled to the cash-short city banks. Funds in the call market are composed of three different maturities — half-day money, unconditional money and fixed maturity money. Half-day money does not require collateral because it is cleared within the day. Unconditional money is repayable on the next business day. Fixed maturity money is repayable in two to seven days. Unconditional and fixed maturity instruments require high-quality collateral, including government bonds, bank debentures, corporate bonds and debentures, first-class bills endorsed by banks, Treasury bills, etc.

As of the end of 1982, outstanding call loans totaled ¥4.5 trillion (about $19.5 billion). The largest suppliers of funds were the trust banks (27.1 percent), followed by the National Federation of Credit Associations and individual credit associations (12.0 percent), financial institutions for agriculture and forestry (11.1 percent) and regional banks (9.8 percent). The city banks were the largest borrowers (71.9 percent).

Bill Discount Market — The bill discount market was instituted in May 1971 and is analogous to bankers acceptances, offering funds for longer terms than available in the call markets. Like the call market, only financial institutions can participate in the bill discount market. The bills come in one-, two-, three-, or four-month maturities. Investors can resell the bills without restriction 30 days after they have been issued. All transactions are carried out through tanshi houses by telephone.

Because the volume outstanding in the bill discount market fluctuates, the market has been used by the Bank of Japan to adjust the impact of interest-rate fluctuations and capital movements. As the liberalization of short-term markets has proceeded, the trading volume has increased. As of the end of 1982, outstanding balances were ¥5.4 trillion (about $23.5 billion). The largest lenders were financial institutions for agriculture and forestry (29.3 percent) and credit associations (23.9 percent). The credit created was loaned primarily to the city banks (79.2 percent).

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Unrestricted Markets

The corporate sector, as noted earlier, was not allowed to participate in the interbank markets. In addition, the Bank of Japan excluded bank debentures from its portfolio in its monetary operations so the banks had to rely on the corporate sector for the placement of new bank debentures. The combined effect of these developments encouraged the corporate sector to participate in the gensaki market. As this market expanded, the corporate sector sought further alternatives and in May 1979, private financial institutions were permitted to issue negotiable certificates of deposit. Still another step toward liberalization was the introduction of Treasury bills for sale to the public in 1981 and 1982.

Gensaki (Repurchase Agreements) — In a gensaki transaction, the sale and repurchase of bonds is mediated by a securities company. The borrowing and lending is for a specific period of time under a repurchase agreement. The difference between the purchase and resale prices represents interest income to the investor. The gensaki market has been allowed to develop relatively free of government intervention. The rates paid in this market are not regulated and fluctuate according to the supply and demand for short-term money.

Gensaki agreements expanded rapidly in the early 1970s when corporations and other institutions had excess liquidity and wanted to maximize their return on short-term investments. Participation in this market by non-residents was permitted in 1979 and a year later it was opened to city banks. Since 1980, when the Foreign Exchange and Foreign Trade Control Law was amended, the volume traded by non-residents has gradually increased and now accounts for 11.0 percent of the total outstanding balance of bond purchases. At its peak, volume in this market reached about $19.6 billion. With the rapid increase in certificates of deposit, however, an instrument which is not subject to the security transaction tax, and competition from the sale of Treasury bills, it has dropped somewhat to $18.7 billion.

Certificates of Deposit — The CD market has grown rapidly since its introduction in May 1979 and holdings have reached a size roughly equivalent to the other short-term financial instruments, making it an important money market category for banks. However, because of various restrictions, only a narrow range of participants can invest in CDs since the minimum purchase is ¥500 million (about $2.2 million) and the terms are three to six months. In 1982, issues totaled about $18.8 billion.

City banks, trust and long-term credit banks, mutual savings and loans, foreign banks and credit associations are allowed to issue CDs; the major buyers are large cash-heavy corporations. The certificates are subject to a 35-percent withholding tax for residents (10 percent for non-residents) at maturity. Investors who resell CDs before maturity pay no tax. Secondary trading of CDs is not subject to the security transaction tax imposed in the gensaki market.

Market trading of CDs has been very popular since 1980 when the tanshi houses began to offer them. At the time, dealings in the call and bill discount markets were stagnant. The experience of selling Treasury bills on behalf of the Bank of Japan gave the tanshi houses credibility with the corporate sector, enabling them to promote the new market. Except for alteration of the ceiling amount, the terms and restrictions originally imposed on CDs remain unchanged. As a result, participants are pressing for reforms to make the certificates more competitive. Specifically, a reduction in the minimum size of the transaction would attract more buyers, as would more flexible maturities.

Rapid Expansion of the Market

A number of different developments have stimulated the gradual freeing of the domestic short-term market. First, as the Japanese economy slipped into slower growth in the 1970s after the oil crisis, the corporate sector found itself with a surplus of cash. Simultaneously, the public sector's needs expanded as a result of decisions to stimulate spending by issuing government bonds. Corporate investors, in an effort to manage their financial portfolios more effectively, became very sensitive to interest rates. Individuals also showed a growing desire to diversify holdings into higher interest-rate instruments as income growth slowed. And private financial institutions, reflecting an awareness that their share of the financial market depended on a response to the preferences of the private sector, began to call for decontrol.

At the same time, the size and importance of international monetary transactions increased. Foreign pressures to liberalize and internationalize Japan's financial markets mounted, as Japanese financial institutions moved into overseas investments and steps were taken to encourage the flow of foreign currency into Japan. With the introduction of some steps to liberalize the gensaki market and allow non-residents to make yen deposits, the direction of movement was clear, and in 1980, the new foreign exchange control law came into effect. During the recession, with financial demand stagnant, corporations and financial institutions were wary of long-term issues and were persuaded by international monetary problems to pursue low-risk short-term investments. An accompanying factor was that the excess liquidity in the corporate sector and massive issues of government bonds left the authorities without adequate ways to directly control lending activities. It became important to influence portfolio selection by affecting interest rates. With the increase in the flow of funds, interest rates had to be allowed to allocate resources throughout the economy.

Liberalization in the Short-Term Market

Before liberalization, the call and bill discount rates did not precisely reflect the true demand-supply situation. The quotation system which fixed the call rate was decided by a consensus of major borrowers and lenders. The quotations were changed only once or twice a month, based on reasons which both parties considered appropriate — for example, the pattern of seasonal adjustments. Therefore, when the market changed or expectations for future rates shifted rapidly, the quotations did not accurately follow the developing market situation. When liberalization began in 1978, the changes were gradual. In the call market, quotations were changed more frequently; seven-day call money was introduced in 1978 and the quotation system for call money was entirely abolished in 1979.

In the bill discount market, the resale of bills before maturity without restriction began in 1978. The free-rate one-month bill was introduced and the rates were liberalized for those bills with a maturity of over three months. The quotation system was abolished in October 1979. The interest rates prevailing in the market today respond to the supply and demand situation, market expectations and the monetary policy imposed by the Bank of Japan in pursuit of a desired level of interest rates. The introduction of greater flexibility in the interbank market also increased interest-rate arbitrage between the domestic and international markets.

In the gensaki markets, though, the restrictions imposed on bonds with repurchase agreements impeded smooth interest-rate arbitrage. From 1978, many of these restrictions were relaxed and the limitations on the volume of bond sales with repurchase agreements by city banks was abolished, improving intermarket arbitrage. The system moved further in this direction when in 1981, the Bank of Japan sold Treasury bills to the non-banking private sector and the new foreign exchange law encouraged arbitrage between Japanese and overseas markets. The marked growth in interest arbitrage transactions was joined by foreign banks in Japan, securities companies and corporations anxious to find the most effective placement at home and abroad, as well as by the diversification of methods of trading with overseas markets such as non-resident yen deposits, short-term loans, resident foreign currency deposits and purchases of overseas bonds.

Future Development

The Bank of Japan began to sell Treasury bills from its holdings in 1981 in order to absorb surplus funds from the short-term market. The lack of a well-developed market for these bills has been a severe deficiency. Many economists consider it important to broaden the available instruments since the central bank presently is limited in its ability to adjust the supply and demand for short-term funds in the market. Lacking a Treasury bill market in the past, Japan has had no equivalent to the Federal Reserve System's open market operations as a tool of monetary policy. Further, all public bonds issued since 1974 will shortly mature and will compete with the Treasury bills — making deregulation of the uncompetitive, low interest rates on Treasury bills imperative.

Tokyo's dollar call market started in 1972 to lend or borrow foreign currency-denominated short-term funds in Japan. The practices are based on trading in the Eurodollar market and have been enhanced by the new foreign exchange law and the liberalization of short-term foreign loans. Participants in the Tokyo dollar call market are foreign-exchange banks approved by the MOF and the size of the market is necessarily limited. Consequently, pressure is building to establish an off-shore market in Tokyo. However, it is unclear yet just when or in what form this development will materialize.

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Table 1: Outstanding Balance of Short-Term Financial Assets

(in billions of yen, end of year figures)

	Call Money		Bills Discounted		Gensaki (repurchase agreements)		Certificates of Deposit		Total	
	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio	Amount	Ratio
1975	¥2,332	27.2%	¥4,403	51.4%	¥1,836	21.4%			¥8,570	100%
1976	2,567	26.3	5,091	52.3	2,084	21.4			9,742	100
1977	2,614	22.7	6,084	51.4	3,136	26.5			11,837	100
1978	2,326	17.7	6,590	50.2	4,207	32.1			13,123	100
1979	3,472	22.3	6,327	40.6	3,960	25.4	¥1,820	11.7%	15,580	100
1980	4,133	24.7	5,738	34.3	4,507	26.9	2,358	14.1	16,736	100
1981	4,699	28.5	4,015	24.3	4,481	27.2	3,291	20.0	16,486	100
1982	4,473	24.2	5,413	29.2	4,303	23.2	4,342	23.4	18,552	100

Source: Bank of Japan